THE LIBRARY OF POLITICAL EDUCATION

The Society for Political Education.

(*ORGANIZED* 1880.)

OBJECTS.—The SOCIETY was organized by citizens who believe that the success of our government depends on the active political influence of educated intelligence, and that parties are means, not ends. It is entirely non-partisan in its organization, and is not to be used for any other purpose than the awakening of an intelligent interest in government methods and purposes tending to restrain the abuse of parties and to promote party morality.

Among its organizers are numbered Democrats, Republicans, and Independents, who differ among themselves as to which party is best fitted to conduct the government, but who are in the main agreed as to the following propositions:

The right of each citizen to his free voice and vote must be upheld.

Office-holders must not control the suffrage.

The office should seek the man, and not the man the office.

Public service, in business positions, should depend solely on fitness and good behavior.

The crimes of bribery and corruption must be relentlessly punished.

Local issues should be independent of national parties.

Coins made unlimited legal tender must possess their face value as metal in the markets of the world.

Sound currency must have a metal basis, and all paper money must be convertible on demand.

Labor has a right to the highest wages it can earn, unhindered by public or private tyranny.

Trade has the right to the freest scope, unfettered by taxes, except for government expenses.

Corporations must be restricted from abuse of privilege.

Neither the public money nor the people's land must be used to subsidize private enterprise.

A public opinion, wholesome and active, unhampered by machine control, is the true safeguard of popular institutions.

Persons who become members of the Society are not, however, required to endorse the above.

METHODS.—The Society proposes to carry out its objects by submitting from time to time to its members lists of books which it regards as desirable reading on current political and economic questions; by selecting annual courses of reading for its members; by supplying the books so selected at the smallest possible advance beyond actual cost; by furnishing and circulating, at a low price and in cheap form, sound economic and political literature in maintenance and illustration of the principles above announced as constituting the basis of its organization; and by assisting in the formation of reading and corresponding circles and clubs for discussing social, political, and economic questions.

ORGANIZATION.—The Society is to be managed by an Executive Committee of twenty-five persons, selected from different sections of the United States. At the end of the first year the Executive Committee is to resolve itself into three sections, holding office respectively one, two, and three years from that date, and at the expiration of the term of office of

each section, the remaining two thirds of the Committee shall elect, by ballot, members to fill vacancies. The correspondence of the Society is to be divided among five secretaries, one each for the East, the Northwest, the Southeast, the Southwest, and the Pacific Slope.

MEMBERSHIP.—ACTIVE MEMBERS are such persons as will pledge themselves to read the Constitution of the United States, and that of the State in which they reside; who will agree to read at least one of the annual courses as included in the *Library of Political Education*, and who will pay an annual fee of 50 cents (which may be forwarded in postage-stamps), entitling the member to receive the tracts and lists published by the Society during the year.

Parents, guardians, or teachers will be considered as having fulfilled the above obligations if they make their children, wards, or pupils follow the prescribed course of reading.

In order to make the membership widespread, and especially to enable students in the public schools and colleges to take part in the Society, the annual fee for Active Members has been made so small that the proceeds are inadequate to carry out the objects of the Society. To provide for the resulting deficiency, the Executive Committee has established a special membership for such public-spirited persons as wish to promote political and economic education, as follows :—

Any person may become a **CO-OPERATING** Member on the annual payment of $5.00 or more, which shall entitle such member to receive the tracts and lists published by the Society, and to nominate two Fellowship Members. To persons so nominated the Secretary will send the series of Economic Tracts for 1880–81, stating that they are presented through the courtesy of such Coöperating Member.

FIRST YEAR'S WORK, 1880–81. — During the past year the Society has received fees from one thousand five hundred members, of whom one hundred and seventy-five are Coöperating Members, and one hundred and five Lady Members. There have also been seven Auxiliary Societies established, of which two are in connection with colleges or schools.

For the first series of the *Library of Political Education*, the following elementary works were selected for the year's course of reading :

1. POLITICS FOR YOUNG AMERICANS, by Chas. Nordhoff. (Including the Constitution of the United States, etc.) Harper & Bros. [Copyr. 1875.] 200 pp., 75 cents.

2. HISTORY OF AMERICAN POLITICS, by Alex. Johnston. Henry Holt & Co. [Copyr. 1879.] 12x274 pp., 75 cents.

3. INTRODUCTION TO POLITICAL ECONOMY, by Prof. A. L. Perry. Chas. Scribner's Sons. [Copyr. 1877.] 348 pp., $1.50.

4. ALPHABET IN FINANCE, by Graham McAdam. G. P. Putnam's Sons. [Copyr. 1876.] 22x210 pp., $1.25.

AN

ALPHABET IN FINANCE

A SIMPLE STATEMENT OF PERMANENT
PRINCIPLES AND THEIR APPLICATION
TO QUESTIONS OF THE DAY

BY
GRAHAM McADAM

WITH INTRODUCTION

BY
R. R. BOWKER

NEW YORK
G. P. PUTNAM'S SONS
27 AND 29 WEST 23D STREET
1882.

INTRODUCTION.

THIS little book, it may be more fitting for me than for the author to say, has been written as a political duty. This idea of duty, far removed as it is from partisanship, is based on a political faith which may be briefly set forth.

Most men have fair common sense, that is, the power to make a right judgment on simple questions clearly presented. Most men have also common honesty, that is, the will to act as their judgment tells them is right. These are the chief grounds of faith in democracy—that men, according to their light, are given to think rightly rather than to think wrongly and glad to do right rather than to do wrong.

It is on such political optimism that our theory of government is based, nor is any system of government, or social machinery of any sort, possible, ex-

cept with some belief in humanity. Every organization pre-supposes true men, somewhere.

Yet it is true that the number, especially of educated men, who unwillingly harbor growing doubts of democracy, is sadly on the increase among us. I venture to say that this very despondency, and consequent inactivity, is the source of their infidelity; it is their fault, rather than the fault of "democracy," that they have lost faith.

Democracy has not always meant universal suffrage, but, practically, it means so to-day. It requires of every man that he shall do his duty, *his* duty. It is bad for the ignorant, or the vicious, to do ill; but it is worse for the educated, or the honest, to do nothing. The political pessimists, if they still mean to be good Americans, now pin their doubtful faith upon educated suffrage. To them universal suffrage is only a count of noses, another form of that decision by lot which was of old the *vox Dei.* If this is anywhere true, it is true not because of the ignorant, but because of the educated; not because the people would not learn, but because the teachers would not teach. It is to the educated citizen, indignant at the demoralization of "democracy"—which he looks upon as something apart from himself—that we must cry out: "thou art the man."

For to say that most men wish to think rightly and to do right, is to assert their desire for the basis of right thinking and right doing, their willingness "to listen to reason." They require enlightenment, information, and this must come from those trained, each in his degree, to require and to give it. The sense for leadership is a part of human nature—

"There's nothing men so crave as leadership."

Men naturally "look up," as each man knows from his own tendency, to those qualified to guide, and are willing to be led in directions which they are shown are the right directions. So strong is this sense, indeed, that right leaders wanting, men are prone to follow any who offer. Universal suffrage, then, when the several elements do their respective duties, is not a count of noses, but a balancing of brains—in which, provided "brains" acts as well as thinks, (for "knowledge is power" only when knowledge goes to work,) intelligence and righteousness are sure to tell in the long run. Our government provides that all men shall be equal, in opportunity, so far as human institutions can make it possible; there is a higher law of equality which ordains that responsibility shall be equal to privilege, and requires the most from those most gifted or best trained. De-

mocracy is thus an army officered by nature, in which the sword-voice of the general may equal, by his inspiration, the bullets or ballots of the thousand men behind him. Yet, after all, it is the body of the people who are the final reliance: we speak accurately of the great court of the people.

It is in this way that the voice of the people is the voice of right. In this great assemblage, each man must fulfil his function, not as a part of one class teaching another class,—for in our country, and especially under our system of popular education, there can be no lines of demarcation sufficiently stable to define classes—but as receiving from his neighbor on the one side and imparting to his neighbor on the other. If the educated refuse to fulfil their function under universal suffrage, it is difficult to see why they may be expected to do their duty under educated suffrage. The voters who would be excluded under an educational test are, at the most, a small minority in this country, and an aristocracy of ignorance, holding a permanent balance of power, is a contradiction of terms.

Doubtless there are many discouragements, especially in our large cities,—which, with the unassimilated population thrown upon the polls by too hasty naturalization acts, present many difficult problems,—

against any attempts of the best-fitted toward regaining that lapsed influence in the state which the scheme of democracy pre-supposes. But it is the educated, who can read history and verify progress, who should have the pluck to work and wait, each for himself—to work faithfully and to wait hopefully. Any one man can do a great deal only by holding out a great while,—but by and by an army will be standing shoulder to shoulder with him. And each one who has done any part of his duty to his neighbor knows from his own experience that those about him in humbler spheres, such as our immigrant class, look up to his helpfulness cordially and are glad to accept what is wholesome in his influence, provided he gives it not like a prig but like a man.

The political safety, then, is that the people should understand issues, should form right judgments, and should vote honestly according to those judgments. To assure the latter, to prevent undue temptation that by easy processes of corruption shall turn reasonably honest men into dishonest ones, is the object of civil service reform, which must be backed up by a public opinion that shall make "he has betrayed his trust!" only less a social brand than "he has been a state prison convict!" But not less important is the work of bringing issues clearly within the

comprehension of all the people. We did not need Herbert Spencer to teach us, (although no one has proved it so thoroughly as he,) that the most complex subjects resolve themselves into simple elements before a sufficient analysis. Nowhere is this simplification more possible, and more needed, than in the perplexing questions of finance now before the American people. Properly treated, they are seen to resolve themselves into matters of every day experience.

We have had so many nostrums in finance, so many "new plans" for resumption, that it is no wonder the public turns away discouraged from all debate on the subject. What is wanted is not nostrums,—*our* notion, each different, but such investigation of the subject as will bring out the natural basic principle on which the issue must be permanently decided. The present book presents no new plan for resumption: it does seek to find what is the natural method. As its author writes, in a personal letter, which I may quote:—

"I have made no new discoveries, developed no new laws, added not a jot to the history or science of money. The only originality is in the manner of putting things, and a considerable trial of this manner during the last two years has brought me rea-

sonable assurance of its effectiveness. The expositions of the subject usually given are so burdened with masses of facts and complications of figures, that few have either the patience or the leisure to dig out the underlying principles and articulate them in a logical skeleton. I have endeavored to present a clear, clean-cut outline of the elementary truths, and, using illustration only to illustrate, have endeavored to avoid starting distracting side discussions on the meaning of the complex evidences of history."

Mr. Mc Adam's book, like Topsy, "was n't born —it growed." Engaged in editorial work upon the Brooklyn *Times*, the leading journal of the eastern division (Williamsburgh) of that city, he found by sad experience, both in studying the debates in Congress and the newspaper comments, and in his intercourse with his readers, that the simplest principles of finance were continually lost sight of or misconstrued. This led him to prepare, with careful study, a modest series of elementary articles, which proved useful to so many readers that it was thought they might be of service to the wider circle reached by a book.

Though these have been much revised and extended, the book is still elementary, but there are few readers who will deem it an insult to their in-

telligence to be asked to see how simple are these complex problems.

The book is intended both to inform those whom it reaches and to put them in a position to inform others. It purposely deals, as Mr. McAdam states, chiefly with principles, and makes slight use of illustration; in this respect Mr. David A. Wells' clever and useful allegory, "Robinson Crusoe's Money," is its counterpart and may be read in connection with it. The present volume was written only after long and unsuccessful search for a sufficiently simple work covering this particular ground. Those who desire to pursue the subject further are referred, for discussions of principles, to Prof. Jevons' "Money and the Mechanism of Exchange," and Prof. Bonamy Price's "Currency and Banking," and for illustrations of practice to Prof. W. G. Sumner's "History of American Currency," which gives our own, and Mr. Walter Bagehot's "Lombard St.," which gives the English experience.

There are those who distrust books and "theory," —which seems to mean a wider experience than their own,—in this subject particularly, to such extent that the only safe way out, to their minds, is to "let well enough alone" and permit the problem to find its "natural solution." They may well be re-

minded that the natural solution of human problems must come through men. And the world must go on, whether they choose to go to sleep or not. There is nothing I for one believe in more thoroughly than the "let be" theory of government, that it should let things alone as far as possible, and that the laws of nature are commonly the best laws. The application in the present case is that, having thrown the government, by the legal tender act, in opposition to nature, human effort must get it back again into the course of nature. We can't "let well enough alone" till we go well. And nature must be given the opportunity. It is the irresolute, weak-minded Hamlet, choosing "to bear the ills we have," who flies most surely to worse "others that we know not of"—as the murderous catastrophe of Shakespeare might have suggested to the Hamlets of modern days.

I cannot close without suggesting that if other Americans, acknowledging the responsibilities of education, would do their duty in their several ways in the spirit in which this book is written, they would soon be converted to abundant faith in democracy. One of the best means of fulfilling that duty is in the circulation of just such books among those who disagree with their conclusions. The intrenchment of

this cause must be among the people. There will always be an influence upon Congressmen, from those who must feel under contraction the pressure of their own mistakes, tending to set aside *any* plan of resumption the moment its success begins to be proven by the results at once desired and dreaded. To give the requisite resistance to our representatives, they must be made to know that to turn back will make them more unpopular than to go forward. In a word, the persistence must come from the people. To secure this, opponents must be converted. It is one of the lamentable facts of our political campaigns that we are out of the habit of hearing both sides. We read only "our own" papers, and listen only to speakers on our own side. This permits not only false logic but false issues, and keeps us fighting this year over "the bloody shirt," when we meant to be battling for financial honesty and civil service reform. Direct debate, as on the Southern stump, is the true method for campaigns before the people. Had not the South proved false to her fashion of free debate the moment it touched the one subject on which it was really important to her, she might have been to-day the new, free, prosperous South, without the awful desolation of that war which, repressed in words, worked itself out in blood. To

promote this wholesome challenging of opinions should be a chief aim of political reformers. The shot must tell not in our own camp but in the enemy's. Especially is this true of this question of finance, wherein metaphor has done duty for fact, assumption for argument, and such phrases as "the people's money" have been dragooned into the service of a theory which is the worst enemy of an honest and industrious people. "The people" need only a full informing to gratefully resolve, alike from the principles of morality and an enlightened self-interest, that they will spell out the Alphabet of Finance to make the American word as good as American g-o-l-d.

R. R. BOWKER.

September, 1876.

CONTENTS.

THE science which ends in the prediction of an eclipse, begins with the acceptance of an axiom. The reason why so many are lost in the labyrinth of conclusions is that they have suffered the clue to slip from their fingers. An essay on the importance of clearly understanding first principles would be out of place here, yet it may be permitted to observe that in pursuing a logical study like that of money, to slide lightly over the opening steps because they are so childishly simple is only to lose a clear direction and go astray as the intricacies are approached.

AN ALPHABET IN FINANCE.

CHAPTER I.

ORIGIN OF MONEY.

THE natural way of getting at the principles of monetary science, would be to run the line back to the historical beginning, mark the introduction of money into civilization, and trace its development to its present point. But to do this by an actual handling of the particular facts would evidently be a tremendous labor. Fortunately, such a course is not at all necessary. The fundamental generalizations are so evidently true, that it is enough to state them in their logical order, and light them up with simple illustrations. Let us attempt this briefly, yet without undue assumption of previous knowledge, but only of common logical faculties—and without any compunctions against making the simplest matter perfectly clear.

In a perfectly savage state, every man supplies directly all his own needs—his own clothing, his own food, his instruments of the chase. The first step in civilization is the division of labor. Each individual produces more of some particular thing than he needs for his own use, and he disposes of this surplus for portions of the surplus productions of others which he requires or desires. Barter is set up. The weaver of cloth trades his product of cloth, except what he wants for his own use, for corn and meat, or such other goods as he may desire. And for a little time, in an extremely rude state of society, barter may suffice for the few exchanges that are necessary. But presently the difficulty arises that the goods offered in exchange will not match. A weaver wants a dozen chairs, but the chairmaker, although he has the chairs to dispose of, does not want cloth; he wants a pair of boots. Now, it may be the bootmaker wants cloth, and the weaver may endeavor to effect the exchange he desires through him. But a new difficulty meets him. He finds that the bootmaker wants only three yards of cloth. But a pair of boots is worth five yards, and the bootmaker will not trade. Even if he would it occurs to the weaver that a single pair of boots is not an equivalent for a dozen chairs, but only for three or four. Now, here

is the problem: The weaver wants chairs, the chair-maker wants boots, the bootmaker wants cloth; all these manufacturers have the stock ready to supply the needs of their fellow producers, but because the *values* of the things they respectively desire do not correspond, trade is blocked.

Mark clearly what this means. What is Value? A hatter declares his hat to be more *valuable* than the baker's loaf. He means, when we run the matter to the bottom, that the hat has cost more *labor* in production than the loaf has. He may not have put that labor directly into the hat himself: the silk-maker, the thread-maker, the paper-maker and innumerable laborers have contributed; but to purchase the material results of their labor, the hatter has had to give his own labor in some way. It is *the amount of labor*, then, that essentially—at the bottom—*constitutes value*, and determines purchasing power.

The goods offered for exchange in barter do not match in kind nor correspond in value. What can be done? Suppose the three were to hold a council on the situation; we can imagine that they would strike out something like this: The weaver might say, "My friends, here is this cloth of mine which you continually want for yourselves and families

Although you, Mr. Bootmaker, only require three yards to-day, you may want more next week; you certainly will want more after a time. And not only do you use this cloth, but your neighbors use it and I doubt not you could trade off any surplus you might have, if at any time you wanted anything else. Why not, therefore, take even more than you at present require, rather than that your goods lie unsold in the shop." The council reflect. The bootmaker has an idea. "Let us take cloth as our *medium of exchange*. A pair of boots is worth five yards of cloth, and a chair is worth a yard and a half of cloth—two chairs for three yards. We can easily reckon our goods in yards of cloth, and trading them for this can trade the cloth again for meat, and bread and fuel." And they agree—and the community agrees. The weaver gives the chairmaker eighteen yards of cloth and receives his dozen chairs; and the chairmaker cuts off five yards of cloth from his roll and hands them over to the bootmaker, who returns a pair of boots.

Now here we have a true MONEY. And we shall see that the primal qualities it possesses are necessary to all true money. Let us take a clear look at them, for, simple as they are, they are wonderfully misunderstood—to the utter confounding of all thought on

the subject. Cloth is the *medium of exchange.* Direct barter not being adequate to the complex demands of civilized trade, the community have adopted the device of double barter. They have agreed upon one universally acceptable commodity which shall stand as a middle commodity in their exchanges. General goods are bartered for it and it is bartered for general goods. The commodity chosen for this middle office is one whose value is well known. The hatter knows that a yard of cloth is worth a certain fraction of a hat; the baker that it is worth so many loaves of bread. It is thus qualified to be the common *measure of value.*

And let it be marked with the utmost distinctness, that the establishment of a common measure of value is pre-requisite to the adoption of a common medium of exchange. The hatter, the baker and the weaver must know what the ratios of exchange among their wares are before they can exchange at all—that is, they must, even in direct barter, have some measure of value. The measure they have is —for each man his own goods. They find that this method of measuring is inconvenient. Every trader must work out complicated sums in proportion with every man he deals with. Now they seek a common medium of exchange. But this does not do away

with the need of measuring. Hence, since the medium must express the values of things exchanged in some common terms, the common terms must be agreed upon—the common measure of value must be fixed. The comprehension of this truth at the start is a matter of the last importance. It reveals at once the absurdity of all those visionary systems of exchange in which the measure of value is ruled out, and supplies the reason for those disturbances of trade which follow the separation, even by a little, of the medium from the measure. These things will appear clearer as we proceed.

The medium and common measure is chosen. The butcher and the baker no longer puzzle over the "rule of three," but simply refer the values of their wares to the common measure. They fix their *prices;* that is, they measure off the value in the money, cloth, the *unit of value-measurement* being the value of a yard of cloth. And they are no longer troubled to find people who have the particular articles they wish for and at the same time happen to want what they themselves have to offer. They first barter or sell their own goods for money, and then barter or sell the money for the goods of others. It must be clearly noted that the money is, in each case, as much sold as the goods. One valuable thing is traded for an-

other valuable thing. And the mere fact of the trade does not make the man who gets the money a whit the richer. He has put a certain value into the goods by his labor, and now realizes upon that value —gets it in available shape. But money is wealth in no higher degree than the wheat that is given for it. It simply brings the trader nearer the commodities which he desires to purchase with his wheat. It measures the amount of his purchasing power and may be directly bartered. Money stands prominent above other commodities, not because it is peculiarly wealth, but because it discharges peculiar functions.

Now, without affirming before proof that our view is complete, we shall find it useful to draw from our illustration a definition :

MONEY *is a commodity which, because of its general acceptability and commonly known value, has been selected by the community to be a measure of value and a medium of exchange.*

And, again without asking prejudgment, we may anticipate the proofs to be hereafter rendered, and emphasize the principle, already revealed in essence, that the measurement of values is the supremely important thing in trade, and that this is always performed by money—by the valuable commodity established as money. Through all the com-

plications of bills, checks, notes, book-accounts, and even in direct barter, money is never dispensed with. It is only superceded in some of its offices. In every trade transaction, whether it is present in material form or not, it plays its part as the measure of value.

CHAPTER II.

THE CHOICE OF GOLD.

IN our last chapter we reached the point where it appeared that a commodity generally acceptable could become a true money—that is, a *measure of value* and a *medium of exchange.* Cloth was the commodity chosen in our illustration; but the reader will readily understand that it might easily have been some other commodity. And many other things have been and are used as this instrument of trade. The ancients employed cattle,—whence, through *pecus*, a flock, our word *pecuniary;* the Greeks at one time used copper nails; the North American Indians and the early colonists adopted wampum, beaver skins, and other commodities; cowry shells are used to-day in Africa, in India cakes of tea, in China pieces of silk; Abyssinia has a salt money, Iceland a codfish money; and at the annual fair at Nizhni Novgorod, Russia, tea is the established measure of value. All these articles have

constituted true money, and a little reflection will show that they have been able to become money because of certain qualities common to all. First and most essential among these is what may be termed a natural (as distinguished from legal) purchasing power, derived from the acceptability of the article for its utility or its desirableness as an ornament, and determined in amount by the amount of labor necessary to produce it.

Let us get this entirely clear. Trade at the bottom is exchange of the fruits of labor. A baker puts his labor into a loaf of bread, and the materials he uses are bought by his labor; a shoemaker similarly puts his labor in a pair of shoes. Now, a comparison of the amounts of labor in the loaf and the pair of shoes will determine the ratio of exchange between these two articles—that is, will give their *values* with respect to each other.* If it takes fifty times as much labor to produce a pair of shoes as it does to produce a loaf of bread, then the *value* of a pair of shoes, expressed in terms of bread, will be fifty loaves. *Value is expressed as a ratio of exchange.* And natural value, natural purchasing power, is

* It is perhaps unnecessary to speak of the effects of quality of labor and of supply, in this connection. Quality is generally reducible, in value, to quantity; and supply, as in the fine arts, in something above ordinary trade. The general law remains the same.

determined by the ratio of labor. The necessity of a clear definition of "value" as respects trade will readily appear. The common air has a value that is beyond all price; but it has no value at all in trade because every one can get it for nothing. Value in trade depends upon labor.

To take up the thread again: The essential quality common to all these various kinds of money is a natural value, generally recognized by the community. Other qualities are, a certain degree of uniformity in value, a certain degree of stability in value, a certain degree of portability. But evidently they do not all possess these important qualities in like measure. Even more, they are all very deficient or imperfect in every one of these qualities. And a little reflection will show that there are many other qualities which it would be desirable to find in money, but which these articles scarcely have at all.

Without further elaboration of this line of inquiry, we may come at once to the question, What are the primal functions of money? Two of them we know already: *a measure of value* and a *medium of exchange*. Are there others?

In a very simple state of trade, an article merely filling these two functions might serve well enough. But as commerce develops, other requirements are

felt. People do not turn their goods at once into other goods, but sell for money and wait a while before purchasing. They need a medium which can be relied upon to bring back goods as valuable as those they sold. Again they sell on credit; they will receive money some months hence. This money, therefore, should not be such that it will change in purchasing power during the interval. Its value should be reasonably fixed. A third function of good money is, then, to be a *standard of value*. The commodity should be one that not only will measure to-day's transactions, but which can also be depended upon to measure truly, transactions to be consummated after months and after years.

Again, people desire frequently to transport wealth from place to place, from country to country. This becomes a very important matter in the settlement of foreign debts, and in general commercial exchange. As we shall see, also, it very nearly concerns the exemption of money from fluctuations in value. Some commodity, therefore, is wanted, acceptable the world over, which possesses great value in small bulk. A fourth function of money is to be a *store of value*.

A *measure of value*, a *medium of exchange*, a *standard of value*, a *store of value*:—is there any article

which is better adapted to fulfil these functions than the beaver skins, the cowries, the cattle, the tea, of ancient and uncivilized nations? The experience of the world says there is, and that that article is GOLD.*

* See Chapter IX as to silver.

CHAPTER III.

QUALITIES OF GOLD FOR MONEY.

IT will be useful now to regard with particularity the qualities of gold for money, and consider whether the world has not judged wisely in choosing it as the best commodity for the purpose. Its properties, with respect to this purpose, may be enumerated (somewhat in the order of their importance) thus: Value, Stability, Portability, Divisibility, Indestructibility, Uniformity, Recognizability.

Value: It is generally acceptable and is a product of labor. Strange as it may seem, certain theorists (the advocates of paper money) have at one time denied that gold possesses any natural value, and at another declared that the possession of natural value unfits it to be money. There would seem really to be no way of debating the first of these positions. The universal acceptability of gold is simply a fact, and it is no less a fact that gold can not be obtained without labor. In all ages gold has

been among the highest prized of metals, becoming from its remarkable qualities the symbol of truth, nobleness, honor, and all worth. If what is called the "argument" against its value be examined, it is found to be simply a protest against the folly of men in placing a value on ornament. Gold is used, say the paper money theorists, chiefly in jewelry; but a jewel is not a useful thing; it is of no value to mankind. Now, without considering whether things which minister to other than the merely physical necessities should possess value among rational beings, the fact remains that they do. "Value," in the sense under consideration, is a matter of trade worth. The paper argument is a trick of a word. A bottle of poison may have "value" in trade, although it be worse than valueless to the man who purchases it. Gold has always been generally acceptable for its rare qualities as an ornament, and in later years has acquired a high utility in chemistry, dentistry and various arts. Moreover, its value for the very purpose of measuring value, its very fitness in all ways to be money, is not to be overlooked. This consideration seems to trouble many. It is thought to give support to the paper money argument that the value of gold is a factitious value, maintained only because men choose to use the

metal for money. The fog should disappear with the reflection that the acceptability of a commodity (in other terms, the number of uses to which it may be put, or the quantity of it which may be called for) does not determine the degree of its value—except in so far as a sudden, abnormal demand produces a temporary rise. Iron has many more uses than gold, but it does not possess as great an exchange value. Why? Because it does not require as much labor to dig a like quantity from the mines. Acceptability, utility, only furnishes a *basis* for value. The *degree* of value is determined by the amount of labor in producing. It costs a dollar's worth of labor to get a dollar's worth of gold out of the earth. This is why a dollar *is* a dollar and not fifty cents. And so, let it be noticed, the demand of one school of visionary philosophers, that the measure of value should be "based on labor," is already met in the only way that is possible, namely, by using a specific amount of the fruit of labor as the definite unit of value-measurement.

Certainly if the demand for gold were to be suddenly increased, the metal would rise in value irrespective of labor. But here would be a special cause operating. And somebody—perhaps the miner—would get more than his due wage. The unusual

demand continuing, more miners would enter the field, and presently the supply of the metal would catch up to the demand, its value would decline until mining returned to the laborer the average rate of remuneration. An undue decline in the value of gold would be corrected by opposite consequences. In fine, where a commodity is produced at a steady rate, the demand only furnishes the basis of value; the degree of value is determined by the amount of labor. Regarding the other position, that gold is not fit for money because it has value, we shall only remark here that to measure value you must have value; just as to measure weight you must have weight, and to measure length you must have length.

Stability of Value: This is an exceedingly important point, but one on which mistakes are common Value being created by the acceptability of an article, and determined in amount by the labor of production, *stability* in value is secured by uniformity in acceptability and uniformity in the labor of production. Our cloth money (see Chap. I,) would not have stability because a change of fashion would make the old stock on hand non-acceptable, and because changes in the cost of material and what not would alter the cost of production from year to year. We

could not find stability in any commodity like wheat, for one year the farmer's labor is rewarded abundantly and the next the crop almost fails. Do we find stability in gold? We do, and to a very high degree. Observe that absolute fixedness of value is not claimed for gold: it is impossible to find that in any human product. But the changes in the value of gold are exceedingly small. From year to year it costs just about the same amount of labor to produce a given quantity of the metal, and the demand for it, for use as jewelry and as money and in the arts, is remarkably uniform. It *fluctuates* scarcely at all. Gold is stable in value. We know the reason. And let us stick fast to that. But now comes the question. How is that stability manifested? And here is where the utter confusion arises. People are not wont, when contemplating a purchase, to inquire as to the amount of labor put into the object they desire. They ask its "price." Now, when we say that wheat is worth half-a-dollar a bushel, we mean, just as much, that the price of gold dollars in wheat is two bushels each. But this year a gold dollar is worth two bushels, last year it was worth but one bushel, and next year it may be worth but a bushel and a-half. "How then can you say that gold does not fluctuate?" And we might

take cotton, hay, beeves, and show in the same way that the ratio of exchange between these and gold is fluctuating continually. Why charge these fluctuations on everything except gold? Let us resort to a rude illustration. Suppose that in 1875 the price of an umbrella was $1.75; of a hatchet, 75 cents; of a bushel of wheat 50 cents. And suppose that in 1876 the prices of these articles were respectively $1.50, 50 cents and $1. Our inquiring and critical friend now observes, "You see, in 1875 a gold dollar was worth four-sevenths of an umbrella, in 1876 it is worth two-thirds of an umbrella; in 1875 it was worth one and a third hatchets, in 1876 it is worth two whole hatchets; in 1875 it was worth two bushels of wheat, in 1876 it is worth but one. And yet you tell me gold does not fluctuate!" But suppose that we add the prices of these articles, in each year, together. The sum each time is $3.00. In other words, $3.00 in gold will buy an umbrella, a hatchet and a bushel of wheat in 1876 just as it would in 1875. Hence, the fluctuations have occurred not in gold but in other commodities. And just the sort of test we have thus crudely described has been applied to the immense field of facts in actual commerce. Volumes have been written on prices, and mountains of data have been distributed

in tables, with the result of showing that gold is one of the least fluctuating of commodities. The ratio of exchange with the aggregate of other products is remarkably fixed. This is of course what we should expect, since the scientific cause of the fact was already revealed. Nor would it have been necessary to approach the matter in this upside-down fashion, but for the circumstance of the marvellous notions that prevail.

Portability: Gold contains large value in small bulk. It is portable. Lycurgus abolished the use of gold and silver and introduced heavy brass and iron coin in Sparta for the express purpose of making the possession of money a burden. But the material for money should not be too valuable. Iridium is so costly that small values expressed in it would have to be held with delicate pincers, and would easily be lost, perhaps puffed from the hand by an inadvertent sneeze. A comment may be in place here as to the current superficial talk about "cheap money." Silver, it is said, would be a good money, the "poor man's money," because it is "cheap." But to say that a metal is cheap, in this sense, is to say only that it requires a large quantity of it to act as a medium of exchange for a small amount of labor. The labor does not bring a whit more value, but only

more bulk, more weight. The "poor man" who should be paid sixty dollars for a month's work in "cheap money" would only find that in place of a weight of about three ounces, he would have to lug off about five pounds. And his five pounds of silver would not buy a single potato more than the three ounces of gold. He would have sixty dollars' purchasing power and no more. It would injure the quality of gold for money to have it much cheaper; it would simply become less portable. And we shall see that the injury might be very great, when we come to consider the self-regulating action of gold, and its influence in adjusting the world's scale of prices.

Divisibility: Because the values of commodities range through such finely graduated measures, it is desirable to have an article for money which can be divided without loss. If a certain commodity were worth but half as much as a beaver skin, it would be difficult to adjust a trade with such money. For to cut the skin in two pieces is to destroy a part of its value. With the ancient cattle-money also—it would be a hazardous undertaking to "make change" by slicing a steak off the round. But a piece of gold can be easily divided, and the aggregate value of the parts is almost exactly equal to the value of the whole piece.

Indestructibility: Corn grows mouldy, cloth becomes moth-eaten, shells break, soap disappears in the rain, cattle get sick—to say nothing of their continual consumption of value in fodder. But gold resists rust, resists fire, and retains its value under almost any circumstances.

Uniformity: When cows were received in Massachusetts for taxes, the farmer was prone to pay in the poorest specimens of his barn-yard. A cow was a cow "for a' that." And in 1658 it was ordered that no man should pay taxes in "lank cattle." It is desirable that the commodity used for money should be *even* in value. Gold is homogeneous or uniform; equal weights of a refined bar are exactly equal in value.

Recognizability: The material of money should be such that the value of a piece can be easily known. If special skill be required to estimate goodness or value—as would be the case if diamonds were used—the ignorant would be constantly imposed upon, and disputes and confusion would continually result. Gold, from its well-known color, ring, "feel," etc., and because it can be *coined* into pieces of known value, makes a remarkably *recognizable* money.

CHAPTER IV.

WHAT IS A STANDARD UNIT?

IT is settled that gold is the best commodity with which values may be measured. It is next in order to fix upon a *unit* of value-measurement. This is a very simple matter. With our cloth money, we found the "unit" to be a certain definite quantity of cloth, known as a "yard." Using gold for money, the "unit" will be a certain, definite quantity of gold—so many grains, so many ounces, or so many pounds. The unit chosen by the United States is 23.22 grains of pure gold, or 25.8 grains, $\frac{9}{10}$ fine. Now evidently, the United States might have chosen twice this quantity for a unit, or fifty times the quantity, or half the quantity. It was only necessary that it should choose some quantity, fix it exactly, and adhere to the unit so fixed. The principle is the same as in all other established measures. It would have made no essential difference in the beginning whether a "yard" were the length now known as

such, or a length ten times as great. The change would be simply that a "yard of cloth" would mean ten times as much cloth as is included in the present yard. The real length of the cloth would not be altered by a hair. The United States unit of value is 25.8 grains of gold, $\frac{9}{10}$ fine. But it is convenient to have a name for a unit of measurement. It would be awkward to say "The price of this knife is 25.8 grains of gold, $\frac{9}{10}$ fine." Hence a name was given—"dollar." "The price of this knife is a dollar." And just as it was found necessary to fix the standard of weights and measures by law, that the weaver who promised so many "yards," or the grocer who promised so many "pecks," should not be permitted to act upon his individual notion of how much cloth ought to be a "yard," or how many potatoes made a fair "peck," so it was found necessary to fix the unit of value (in this country, the "dollar,") by governmental authority. Hence, in a word, 25.8 grains of gold, $\frac{9}{10}$ fine, put into a certain convenient shape, is declared by law to be the legal dollar,—the standard unit of value-measurement. All engagements to pay "dollars" may be legally enforced on this basis —except, of course, when the law is suspended, as it is at the present date by the enactment making certain paper notes "legal tender."

This is perhaps as convenient a place as any to dispose of that curious blunder which displays itself in such remarks as that "the mines of all the world cannot supply gold enough to measure the world's exchanges." It would appear that to measure a hundred-foot liberty pole, your true statesman requires a hundred foot-rules, while to measure all the liberty poles in the Union, and all the telegraph poles, and the heights of all the public buildings—why, the entire forests of America would not furnish stick enough for the enormous number of foot-rules that he would find necessary! The error is a most extraordinary example of philosophical woolgathering. Obviously, the quantity of gold in the world is a matter of no consequence whatever in this connection. Specific values can be expressed by specific quantities of the metal. That is the end of the matter. Suppose the metal were scarcer—suppose it were as rare as iridium. This would mean simply that it cost more labor to produce a given quantity; it would be less bulky in proportion to its value. The specific quantity selected to offset the present dollar's worth would be smaller than now. If gold were twice as rare as now, a bushel of wheat now held, say, as an equivalent for 25.8 grains of gold, would then be held as an equivalent for only 12.9

grains. The entire quantity of gold would contain as much value then as the entire quantity contains now, and hence would as justly measure the value to be measured. However much or little gold there is, it must always be enough for the purpose.

We thus reach the subject of coining. Ordinarily, there would seem to be no difficulty in understanding the rationale of coining; and in point of fact the matter is exceedingly simple, if approached in the line of natural development which we have been following. Experience proved gold to be the best material of which to make money; in what shape should it be prepared for use? The early nations used the metal in rough lumps, whose value they had rudely to estimate by weighing and testing with acids. The ancient Peruvians put up gold dust in quills. In the mining regions of California, Australia, and New Zealand, gold is still used for money in the form of flakes and dust. What does coining do? Simply packs certain quantities of the metal, of certain fineness, in convenient form for handling, putting upon each packet a stamp by which the value of the piece is certified. Various devices are resorted to to prevent counterfeiting; but the single purpose is evidently as we have stated. Yet some theorists assert that the Government

stamp, and that only, gives the value to the piece. If that were so, the government could put its stamp on a bit of copper, "One Dollar," and immediately the same would have the purchasing power of a dollar of gold.

It really seems folly to soberly discuss such a matter, but during the Ohio campaign the statement was frequently made that gold was worth nothing in itself, and that the seal of the government was what made the dollar able to buy a dollar's worth. But is not the fact perfectly clear? The government stamp simply gives reliable information. As Mr. Adams has observed, its purpose is "to save every man the trouble of carrying about with him a bottle of acid and a pair of scales." And the work of coining properly belongs to the government, for the simple reason that the certification of private individuals could not possibly be as authoritative. If the stamp conferred the value, then the obliteration of the stamp would destroy that value. But a gold dollar can be pounded into a shapeless pellet, and it is very nearly as valuable as before—almost precisely as valuable for foreign trade. It loses nothing but its attributes of convenience.

The subject of fractional coinage involving principles not yet discussed, it will be more conveniently treated hereafter.

CHAPTER V.

MONEY A "CREATION OF GOVERNMENT."

E have now reached a point from which it will become more and more necessary—for the saving of space and time in attaining our object—to take notice of current errors while endeavoring to unfold the true theory of money. We have seen that under natural conditions a community, confronted with the evident difficulties of simple barter, will select some fit commodity as a *medium* through which, by a process of double barter, the necessary exchanges may be easily and equitably effected. And we have seen that experience has pointed out gold as the fittest commodity to become this tool of trade. And finally we have seen, that for convenience in handling and reckoning, the gold will be fashioned into pieces of definite weight and fineness, bearing simple proportional relations to each other, the labor of coining being assumed by the State, because the stamp of the State

will give the most authoritative certification possible of the amount and purity of the metal in coin.

It should be easy with this preparation to dispose of one of the most curious yet most oft-reiterated errors of the paper theory. It would be well nigh impossible to tell whence the error originated, but it now claims a sort of root in the constitutional provision that "Congress shall have power to coin money" and "*regulate the value thereof;*" and it flowers out in such statements as, "Money is the creation of government," "Money exists by legislation," "Congress may make five cents worth of pewter a legal tender for one dollar, and that would be Constitutional money,"—all of which are word for word utterances of paper-money journals and orators. Now it might be an effective answer to this sort of talk to recall the fact that money was created before there was any government to speak of, and that it existed a considerable time in advance of any legislation whatever on the subject. But it is worth while to take a dash into the real philosophy of the matter.

"Congress shall have power to coin money" (that is, to put money in the shape of coins) and "regulate the value therof." The latter clause gives rise to the misapprehension. Let us light it up with an

illustration. Has Congress power to *regulate* the *value* of a bushel of wheat? "Certainly not!" says the trader. "And, moreover, it would be impossible for Congress to regulate it. If Congress should pass an act to-morrow declaring that the value of a bushel of wheat was ten cents, the merchants would consult the market quotations all the same, and pay $1.07, $1.15, or whatever they judged the proper rate to be." Congress cannot regulate the value of a bushel of wheat. But it has power to say how much wheat shall be put into a "bushel." It might enact that three of the present pecks should constitute a "bushel," and three pecks would be a legal bushel thenceforth. And supposing this done, a "bushel," of wheat would be "valued" at a quarter less than the old standard. Instead of $1.00, say, a "bushel" would be worth only 75 cents; but $1.00 would buy just as much wheat as before—the only change being that the amount would be called a bushel and a third, instead of a "bushel."

Congress has power to *regulate* the *value* of money in precisely the way here indicated. It prescribes the *quantity* of gold that shall constitute a "dollar." The use " of the word value " in this connection is not strictly scientific; but there seems to be little rational excuse for misinterpreting it. The

value of money, the *value* of a gold dollar, is determined precisely as the value of a bushel of wheat is —by the labor expended in its production, in connection with the fact of desirableness. But in a certain very true sense, Congress does regulate the value both of a bushel of wheat and a dollar coin, by declaring *how much* of the valuable commodity shall be put into each.

Why has the State interfered in the matter of weights and measures? Simply because the ancient "grain" of corn was an uncertain unit for the balance, and because such measurements as the "foot" and "hand" left rather too much to the anatomical structure of the party measuring. As trade developed, it became necessary, for the prevention of endless perplexities and quarreling, to fix the standard of weights and measures, and civilized governments did so fix them because the State only could perform that office authoritatively. Now, when the British government "fixed" the length of a "yard," it might as well (except for circumstances of convenience,) have made it an inch or two longer or shorter, or ten times as long or as short, as it now actually is. But had it done any of these things, it would have taken precisely as much cloth as it does now to make a pair of pantaloons. And whether the quantity meas-

ured, by the standard, two-and-a-half "yards" or two hundred and fifty "yards," the price of the garment would be just the same to a penny.

Congress regulates the "value" of a dollar just as it regulates the length of a yard. It has "fixed" upon 25.8 grains of gold, $\frac{9}{10}$ fine, as the standard "dollar." It has power, constitutionally, to alter this standard. It can indeed make five cents' worth of pewter, not simply "legal tender for one dollar," but actually "one dollar." But in this case a "dollar" would be worth exactly five cents—and what is now a seven dollar silk hat would be priced at $140.00. In a word, Congress *defines the meaning* of the term "dollar," so that when people contract to pay "dollars" their creditors understand what they are to receive and what the law will help them to secure. So then, if "money is the creation of government," the wheat that constitutes a "bushel" of wheat is the creation of government; and if "money exists only by legislation," then the manipulated sweetness that constitutes a "pound" of yellow molasses candy exists only by legislation also.

CHAPTER VI.

HOW MUCH GOLD?

IT will now be in order to clear up a question the misunderstanding of which leads to some of the gravest complications and most destructive errors. It is the question, namely: "How much gold does a country want?" To many, this question will seem simply absurd. They will frame their sagacious argument something in this sarcastic style: "How much gold does a country want? Why how much do you want yourself? Maybe you wouldn't take all you could get?" And this easy settlement of the difficulty is a striking illustration of the superficiality which thousands display in dealing with the money problem. But suppose we should ask one of these sages how many *hats* he wants. A rational answer would be, "A beaver for fine days, a slouch for rainy weather, and an old one to wear in the morning while splitting the kindling wood." "What!" we might respond, "Wouldn't you take a dozen cases,

now, of fine felt hats, if you could get them?" And he would say "Certainly, if I could get them for nothing."

There is the precise point: "If I could get them for nothing." Why did he not put that "if" in in the case of gold? Is gold got for nothing? Is it furnished in some mysterious way to countries free of expense? Evidently, men do *not* take all the gold they can get, any more than they take all the hats they can get. They consult their need and count the cost.

This is all simple enough. Yet the misapprehension has a wonderfully strong hold upon the minds not only of shallow-pates, but of shrewd business men also, merchants and even bankers. An export of gold is regarded with sadness, an influx of it excites rejoicings. Both here and in England, and indeed in every nation and in all times, the mass of people persist and have persisted in being delighted when the precious metal comes into the country and filled with regret when it goes out of it. And it is worth while to note that this feeling, irrational as it is, has just as natural an origin as a thousand other traditional but mistaken notions. Gold being adopted as money, it became customary to estimate all wealth in terms of gold. Hence, by the

same sort of process as that through which the mere symbol often comes to be regarded finally as the thing itself, money, or gold, came to stand in a peculiar way for wealth. The idea has never been definitely formulated; but a misty notion or feeling remains that gold is wealth in a sense not admissible respecting other goods. But if the reader has studied to any purpose the facts which have been here presented, he will have seen that gold as money is simply a tool. It is not desired for itself, but for its functions. It facilitates exchange. It conveys value from one hand to another. That is all. It is a tool. Now, how many tools does a country want? Why, just as many as it has use for: no more, no less. Leaving out for the moment the consideration of reserves, it would be of no advantage to a community to double the number of saws and hammers possessed by it, after it already had as many as its sawing and hammering work called for. And if rejoicing over the multiplication of useless saws and hammers would be folly, so is it folly to rejoice over an influx of tools of commercial exchange, irrespective of any need of those tools.

A country wants as much gold for money as it has use for: that is, it wants just enough to carry on its exchanges easily and without undue friction.

Any more than that is a loss. The useless, dead surplus must have been bought by other goods which might have been at work producing. And we shall see, in the next chapter, that under natural trade conditions, a country will always have what gold it requires.

CHAPTER VII.

GOLD SELF-REGULATING.

IN our last chapter we saw that a country wanted just enough money to carry on its exchanges easily and without undue friction. How are we to discover how much that is? Some sages there be who have figured it down to a dollar, and declared the rate of increase at so much per capita of population; others find a ratio to the aggregate wealth of the country; still others to the aggregate amount of exchanges. The absurdity of such calculations ought especially to appear in times like these, and in a country like this. If A owes B a dollar, and B owes C a dollar, and C owes D a dollar—and so on through the alphabet—and Z owes A a dollar, it is evident that the aggregate indebtedness of twenty-six dollars may be discharged by passing a single dollar from hand to hand around the circle. But if this alphabet of people all keep bank accounts, it is evident that every debt may be canceled without any money at all, simply by a trans-

fer of bank credits. Thus we see that the amount of money required in a community depends upon the rapidity of circulation and the extent to which the system of credit is carried. Among barbarous nations a large proportion of gold is needed, because there are no banks, and the people do not trust each other by the use of checks, notes, bills, etc. In the agricultural regions of civilized countries, exchange is very slow, banking is not employed very much, and a larger proportion of money is required than in driving towns. From all which it will appear, that there is no way of determining the precise amount of money which a country will require. It will vary in different sections, change with the seasons, greaten and lessen with the vicissitudes of trade, alter continually from day to day.

But what then? Are we at the mercy of fickle chance? Not in any wise. Was any one ever alarmed because he could not find out how many saws the country required? Did any one ever wish Congress to prescribe the quantity of carts which the Western farmers should possess? No; these things regulate themselves under the natural laws of trade. If carpentry is brisk, the demand for saws increases, and the manufacturers supply as many as are asked for. When the demand falls off, the manufacturers

lessen the rate of production. Nobody fears "inflation" of saws or "contraction" of saws. The laws of demand and supply give all the regulation necessary. So with carts. And so with gold. Gold is bought just as much as saws and carts are bought. And we shall never be able to comprehend the laws of its flow and reflow, the mystery of the "movements of bullion," the place and influence of gold in trade, until we accustom ourselves to regard it as a commodity of trade like other commodities.

But there is with gold an important peculiarity—its extreme portability. Its transportation costs so little, not more than two or three per cent between the most distant points, that a demand much slighter than would avail with most goods brings it at once to the place having need of it. Except under extraordinary conditions, the lack does not become severe enough to cause a marked rise in value, as might be the case with carts or saws. In specie-paying times the common working is, that the banks foresee they will require gold, and hence send for it. On the other hand, if the supply exceeds the demand, the surplus flows into the bank vaults, and thence goes abroad or returns into circulation as the exigencies of trade direct.

But, some one will object, the demand for gold

sometimes increases with a jump, and the supply cannot as quickly respond. Very true. And in case of saws and hammers this might be a real misfortune; for we cannot very well substitute cobble-stones for hammers nor codfish spines for saws. But in the case of gold, the temporary stringency simply leads to the freer use of checks and to a general expansion of credits. Observe that the stringency which follows the actual consumption of *capital* is not under consideration; when people have no money because they have no property of any sort, then an expansion of credit is either impossible or highly dangerous. We are speaking of a stringency which is simply a dearth of gold—where the people hold other commodities and are not actually poor. In such a contingency, checks multiply, credit enlarges, and what gold there is is made to fly about more quickly, until the inconvenience is relieved by an import of the metal. There would be no such loss even as follows a lack of most other tools. Money is the tool of exchange; but exchange at the bottom is exchange of goods, and it can be carried on very extensively by book accounts, without the interposition of money at all.

Before leaving this part of the topic the reader should note, that if the positions here taken are right,

then the paper-money talk about the advantages of a "non-exportable currency," is the purest kind of bosh. The "exportability" of gold—by which curious term the paper theorists mean the world-wide value of the metal—is one of its most excellent qualities. If it could not be exported nor imported, an excess of it, either through large production or the falling of general business, would be "inflation," while a lack of it would be "contraction."

Now further, to bring out more clearly the fact that there is a common, unbreakable law, which rules gold precisely as it rules other commodities, and to include the extraordinary conditions alluded to above (even those involved in the loss, by a country, of its specie, and concerned in the problem of getting back that specie), let us make the supposition, that the gold in a certain country increases largely over the demand. Now, what happens? Just what happens in the case of any commodity. Gold falls in value. Being itself the measure of value, the fall shows itself in a rise of "prices." But the increased price of goods discourages foreign buyers; they send in no more gold. It will not fetch its value. And the possessors of the gold in the certain country find that they can buy more with it abroad; they export it. Hence the balance is quickly restored. And

supposing the supply of metal to decrease largely in proportion to the demand: then there follows a rise in the purchasing power of gold—a fall in prices. Foreigners send in the metal for the low-priced goods. In a word the "movement of gold" follows the same law as the movement of cotton or of iron. "Price" means simply the ratio of exchange between common goods and money. Given much gold and we have high "prices" in goods; low value for gold in comparison with ordinary merchandise. The home market is the better for the merchandise and the worse for the gold. Merchandise flows in and gold flows out until an equilibrium is reached. The peculiarity in gold resides simply in its exceptional sensitivity to the call of trade. But let us analyze a little closer. We have regarded the quantity of gold in relation to the demand as a cause working upon prices. We may turn the case over, and regard prices as a cause working upon the quantity of gold. If the prices of general commodities rise in a certain country, the traders sell at home, and the foreign merchants import and do not buy, gold ceases to come in, and the home traders settle their foreign balances with the metal in preference to exporting their high-priced goods. If the prices of commodities fall, then the home merchants seek foreign mar-

kets, and the foreign trader comes to purchase; gold stays in, and flows in more abundantly.

Now the whole secret of the movements of gold should stand clearly revealed. Prices and gold act and react upon each other, each in turn the cause, the result being both to maintain an average level of the prices of commodities through the commercial world, and to distribute the general stock of gold evenly, according to the requirement, among the nations. Without some cause not present in legitimate trade, it would be impossible for a country to have either too much or too little of the metal for any length of time; completely impossible for it to be deprived of its stock entirely. A continued influx would raise prices and the influx would stop; a continued outflow would cause prices to fall and the gold would return. The United States has lost its gold. Why? We shall see that the cause exterior to legitimate trade was depreciated paper. This paper caused and sustained a factitious rise in prices and gold had to leave. The United States wishes to get back its gold. How shall it do it? We shall see by withdrawing the paper, and thus suffering prices to find their true level. And the same principle of action will hereafter appear in other phases.

CHAPTER VIII.

GRESHAM'S LAW.

IT is a fundamental law in trade that men will buy as cheaply as they can. Nobody dreams of questioning this. But when the law is simply turned over and we say that men will *pay* in what comes cheapest to them, then there seems to be some mysterious difficulty. Suppose cloth were money, and a man owed another ten yards. He goes to his money chest and finds ten yards which are rather worn by much handling and other ten yards brand new, as good as ever for clothing. Which ten yards will he pay away for his debt? Certainly the worn and handled. It clears the debt as well as the other, and the tailor will give him more for the fresh goods should he trade there. The law rules all money circulation. The ordinary holder of an eagle does not, perhaps, consider whether it be light or full weight. So that it passes for ten "dollars" it is all the same to him. But bullion dealers, bankers and brokers, do consider, and find a profit in

picking out the fresh coins and selling them to goldsmiths, or exporting them abroad, where the precise amount of gold is the only measure of their value. This law, a law supreme in all trade, is known in its adaptation to money circulation as Gresham's Law, Sir Thomas Gresham having formulated it some three centuries ago.

The principle is usually stated thus: *A superior and an inferior money cannot circulate together; the inferior will drive out the superior.*

The operation of this law is evidently not confined to money of one kind of material, nor always to the standard coins. When the greenbacks (from a cause to be hereafter considered) fell in value below gold, they became an inferior money and drove gold from the channels of trade. Nobody, to-day, having to pay a debt of one hundred "dollars," will select gold for the purpose; he can discharge the debt as well with a hundred "dollar" greenbacks, although these be worth but ninety dollars gold. If he come into possession of a hundred gold dollars, he will not use them to liquidate a common legal debt, but will take them to a broker and exchange them for a hundred dollars in greenbacks, plus a premium. The broker will send the specie abroad where it is rated at its true value in general trade. Thus it is certain that

gold will not remain in circulation as money in this country as long as it is under-rated and paper is over-rated; it will not circulate until the paper is brought to par. Millions of gold might be forced in annually from the government mint; but if the paper dollar remained at its present value, the specie would run out like water from a sieve. So long as a man can pay ninety cents on a dollar, he will not pay a hundred cents.

We may add that the intelligent discussion of the silver substitution question is based on this principle also. Should the market value of silver rise so high that even subsidiary coins come to possess more value than they nominally express as a part of the principal piece (now a paper "dollar,") then these subsidiary coins will be melted or exported. They will be worth more as silver, than as half-greenbacks or quarter-greenbacks.

CHAPTER IX.

THE DOUBLE STANDARD QUESTION.

THE law of Gresham makes the much-debated problem of a double standard, so far as the logic of it is involved, as simple as two-and-two. We have assumed, hitherto, that gold has been accepted as the one and the best standard of value. So it has been by most of the advanced nations. But silver for a long time occupied the place, and does now among some peoples. It was selected for the same reasons as those directing the choice of gold, the different conclusion coming from differences of circumstances. But there are those who contend that a better standard than either gold or silver may be found by joining the two metals in an equality of functions. "Confer upon both," they say, "the power of measuring value according to law. Both are liable to fluctuations in value; if either therefore, may be offered in liquidation of debt, that one will always be chosen

which is the lower in value, with the result of correcting or mitigating the fluctuations."

Let us understand this clearly. If we wish to make gold the legal standard, we must fix upon a certain quantity of gold to be the unit. The United States has fixed upon 25.8 grains, $\frac{9}{10}$ fine, and given it the name "dollar." Thus far, very easy. The government might have taken any number of grains it pleased, might have decided the number by throwing dice; it was only necessary to fix upon some well defined quantity, and establish that as the legal dollar. But having fixed upon 25.8 grains, $\frac{9}{10}$ fine, as the gold dollar, how shall it fix the silver dollar? This task, it will be seen, is one of extraordinary difficulty. It is necessary to calculate, with a great degree of exactness, how much silver is equal in value to 25.8 grains of gold, $\frac{9}{10}$ fine. And even while the calculating is in progress, the values of the metals may be changing. Yet suppose it is found that 412½ grains of silver (the old silver dollar) are exactly as valuable as 25.8 grains of gold—the fineness being the same. This quantity is set up as a legal dollar at the side of the gold dollar. Now we have a double standard. But presently silver rises in value, gold remaining the same. A coin of 412½ grains of silver becomes worth more than a

coin of 25.8 grains of gold. The inferior coin is used as money and the superior coin goes to the pot or abroad as metal. Then suppose gold rises above silver. Silver becomes the medium of payment. Or suppose the metals do not rise but fall. The "dollar" of the lower value always becomes the money of circulation, and hence the practical standard of value. And here the advocates of the double standard find a "compensatory" or "equilibratory" action. With every fluctuation in the relative values of the metals, the function of money falls upon the lower metal, the other metal flying away. But if the lower metal comes into greater demand, it must rise in value. Hence the tendency is to a continual return to the balance. Theoretically this is true enough. So long as the values of the two metals varied with approximately equal fluctuations about the same middle or average point, the equilibratory action would be obtained. Nor would the principle fail should either metal have a tendency to occasional heavy dashes upward. The rises are not the disturbing cause. The metal remaining below becomes for the time the standard. But if either metal should be subject to sudden severe depressions, the "double standard" would have to bear them. The sinking metal carries the standard down

with it. Or if, after the ratio of values has been fixed (as 25.8 grains of gold to 412½ grains of silver), one of the metals falls below the other and does not rise to it again, then the lower metal becomes permanently the exclusive standard and the other is permanently driven away.

These principles—simple developments of Gresham's Law, which itself is a simple adaptation of a common law of trade,—have a most important application to the money question in its present phase in this country. The proposition is made to "return to the double standard" by re-establishing the old silver dollar, 412½ grains, as a standard on a par with gold. But 412½ grains of silver is no longer an equivalent for 25.8 grains of gold. Silver has fallen some twenty per cent. There would be, then, no "return to the double standard," but a change to the silver standard, with this standard lowered twenty per cent from its old point. To return to the double standard now, it will be necessary to discover the present ratio between the values of gold and silver. The old problem must be worked out for the new conditions, How much silver is to-day equal to 25.8 grains of gold? And we find that the silver dollar to-day, to be a standard, should contain something like 515 grains. But we may be permitted to doubt if those

who clamor for the "double standard" would be entirely contented with this response to their desires.* Nor would this adjustment satisfy any well-informed person, for the simple reason that silver is at the present time one of the most unreliable of valuable things. We might to-day fix the ratio at 25.8 grains of gold to 515 grains of silver, and find that ratio all wrong to-morrow. And finally the general experience of commercial nations is against the double standard. The "compensatory" action practically results in hurtful changes of the whole body of the currency from one metal to another, and always in the degrading direction.

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* For a broader discussion of the silver question, see Chapter XXVII.

CHAPTER X.

THE CREDIT SYSTEM.

IF we have fully mastered the principles which have been sketched in the previous chapters, we are now prepared to enter systematically upon the consideration of those devices which have been naturally developed under the increase and complication of civilized trade, for effecting exchanges more rapidly, more safely, more economically, and in greater bulk, than would be possible through the simple mediumship of the precious metals. But it is of course beyond the purpose of these pages to discuss minutely the vast and ramified mechanism of the modern system of exchange. As we have sought only for the A, B, and C of metallic currency, so now we shall aim simply to outline the general principles which govern the action of the other instruments of exchange, specializing only in those lines which make very directly to the solution of the "specie payment" question.

In the opening chapters of this book we saw that

the principal functions of money were those of a measure of value, a medium of exchange, a standard of value, and a store of value. The exigencies of trade require that these functions shall be in some way performed. But a little examination will reveal the fact that it is not necessary that they should all be performed by the same thing. That which in itself fulfills all these functions is known distinctively as money; and there are very excellent reasons for confining the use of the word to that one thing—in the United States, coined gold. But money is not the only tool of trade. Other tools have been found and devised which are far more efficient than gold in the performance of certain offices. Of these tools we are concerned with those only which perform the office of a medium of exchange. They consist substantially of various devices of pledging and accounting, the entire system resting on what is called "credit." As was observed in Chapter I, we shall see that none of these devices does away with the necessity of real money—the valuable commodity. Money stands behind all these forms of credit, performing its supreme offices as a measure and standard of value.

"Credit" is a term which has been used in such absurd ways that it is necessary at the start

to make certain that its meaning is understood. If we might accept much of the current talk, "credit" is some mysterious, tremendous, self-centred, uncreated power, whose achievements are as unexplainable as they are boundless. But if we analyze the particular examples of credit which come within our individual observation, we shall presently remark that credit is nothing more nor less than the deferring of payment by agreement with the creditor. Credit, then, is limited by the ability to pay, and determined specifically in each case where it is given and taken by the particular values exchanged. Simple as are these facts, they are continually overlooked or ignored. We hear talk every day about "basing" a paper currency on the "credit" of the government, one part of the scheme being that the government shall never pay anything for the notes so issued. But if a note for one dollar is issued on "credit," the implication is that one dollar will at some time be paid for the note. We hear talk also as if "credit" could be shovelled out to the "workingman" and others in some way, like coals or potatoes; and the government is loudly called upon to engage in the benevolent occupation. A dash of common sense ought to sweep out all these vaporous notions. Credit is, in the first place, made possible only by the posses-

sion of actual property, or the rational appearance of ability to pay; and, in the second place, it never takes on a real existence except by the pledge on the one side of a specific value and the expectation on the other of receiving that value. The clear understanding of this matter in the beginning will aid us wonderfully to comprehend the development of the methods of exchange.

In the beginning was barter. The inconveniences of barter suggested the adoption of a middle commodity, gold, and the carrying on of trade by double barter. Lastly we find that the intermediary process of bartering our goods for gold and bartering the gold again for the goods of others, can be, as it were, performed on paper—to the great saving of time, trouble and expense. The all-important principle involved in these devices is, the acceptance of a promise to pay value at some future time, the value being expressed in terms of the measure, money; and the receipt, upon the maturity of the promise, of some value other than money, the value again being estimated by the standard measure.

CHAPTER XI.

IS A BANK-NOTE MONEY?

IF the subject of paper currency is "as incomprehensible as the differential calculus," its first principles are as simple as are those of that intricate mathematical study. What is a bank-note? It is a promissory note, issued by a banker, binding him to pay on demand to the bearer, without question, the amount of lawful money named upon the face. It bears no interest, nor does any liability for its ultimate redemption rest upon those through whose hands it has passed. There is no difficulty in comprehending these plain matters of fact, yet it is simply the failure to hold them clearly in mind which is the occasion of most of the errors by which the subject is confused. For instance, if a bank-note is a promise to pay money, then it is not itself money. But bank-notes are called "money" continually, and because so called, are regarded practically as the same in character with gold, and hence are expected to perform all the functions of

gold, and to obey the same laws. This error being a vital one, let us dispose of it at once.

Many writers affect to settle the matter lightly by calling it a mere question of a word. Very good; we may, if we please, consider it a mere question of a word: but half the intellectual blunders of men have their root in words and the misapprehension of their meaning. It may be very true that people can apply the word "money" to bank-notes if they so wish; but they do not thus annihilate the difference between gold and a promise to pay gold, and the mischief is that they think they do. Thus an article on "money" in the American Cyclopedia—in which work of popular reference, if anywhere in print, the utmost accuracy of statement should prevail—is vitiated through and through, and made a breeder of most dangerous errors, by this trifling difference of opinion as to the application of a word. "Anything," it says, "which freely circulates from hand to hand, as a common, acceptable medium of exchange in any country, is in such country money, even though it ceases to be such, or to possess any value, in passing into another country. In a word, an article is determined to be money, by reason of the performance by it of certain functions, without regard to its form or substance."—And the article goes on into

that cloud-land where figures of speech are mistaken for scientific definitions, and symbols generally for substances. The blunder, obviously, is the common one of forgetting that the function of a *medium* of exchange is not the only one which must be discharged to carry on trade. The function of a *measure* of value is more important still. Commodities may be exchanged without the intervention of a medium; they cannot be without the use of some sort of measure of value. If we choose to call that "money" which acts merely as a medium, we may do so; but then we must find some other term for that which acts as a measure of value.

Furthermore, if bank-notes are "money" because they operate as a medium of exchange, then checks also are money, and bills of exchange are money, and book-accounts are money, and spoken words are money, and nods of the head on 'Change or at an auction are money—since all these things and signs can thus operate, and can invoke the law, even as bank-notes, to compel the fulfillment of their promises. But there is a vital distinction between these symbols and gold. Gold is actual property; it holds the value stipulated for in itself; the receiver of it is *paid*, and need look no further for the settlement of his claim for the goods he has sold. But the

bank-note is an order on a banker which may or may not be honored, the check rests upon the drawer, and book accounts and spoken words are, in precisely the same way, only evidences of indebtedness, depending for their goodness upon the ability and willingness of the debtor to pay and upon the efficiency of the laws to enforce payment.

We repeat, all these things may be called "money," but they are not therefore converted into gold, or into commodities possessing value of themselves. And if they have not value of themselves, then they cannot of themselves discharge the absolutely necessary function of a measure of value.

The "mere question of a word," then, becomes the question whether we shall have a term by which the absolute, non-dependent instrument of exchange shall be distinguished from those which rest upon credit; or whether, confounding all the instruments under one title, we shall attempt to comprehend the intricate mechanism of finance without any distinctive name for the most important part of the machine. Suppose people should refuse to distinguish between a house and a title-deed of that house, and insist on calling both "property." Then if the house is worth $20,000, it will appear that the owner who owns also the deed, has "property" to the

amount of $40,000. Precisely this ridiculous blunder is made when bank-notes and the gold in which they are redeemable are both called money. It comes to pass that bank-notes are counted as self-contained money, that is, wealth; and thus it is held that the destruction of bank-notes is the destruction of wealth, and the increase of bank-notes is the increase of wealth. An Irish mob, wishing to punish an unpopular banker, possessed themselves of all the notes issued by him which they could gather together, and making a bonfire, cast them into the flames, dancing about the immolating altar meanwhile, in ecstasy over the financial ruin of their enemy! We may be amused at this ludicrous blunder, but their reasoning can be paralleled over and over in the every-day talk of people supposed to possess common sense, and to be particularly sagacious in matters of finance.

Bank-notes, checks, all forms of promises to pay lawful money, are radically different from coin. The difference is similar to that between a house and a title-deed to a house. The paper promises are the legal evidences, which the courts will sustain to compel the stipulated payment. The coin is the actual substance for which a trader has given his goods, and by which, therefore, the value of his goods is meas-

ured If Smith gives Brown a piece of land and receives in return a title-deed to a house, we do not examine the title-deed to determine the value Smith puts on his land; we examine the house. The title might say $5,000, $10,000, or $50,000, (those who have been tricked by "operating" real-estate transfers will appreciate the flexibility of titles in this particular), but Smith trades his land only for the house, and the house measures the value of that land. So, also, with a bank-note: it cannot be a measure of value; the substance to which it gives title is the measure. These things being so, there ought to be no question as to the wisdom of limiting the application of the term "money" to this coined gold—or to whatever commodity has been adopted as money in the country concerned. Let us so limit it. At least, let us hold clearly in mind the distinction between the scientific and the popular use of the word.

CHAPTER XII.

"CONVERTIBLE" BANK-NOTES.

BANK-notes not being money, how is it that they are able to act as a medium of exchange? If we confine our attention to convertible bank-notes — convertible, we mean, into gold—the answer is a simple one. People are willing to sell on credit—that is, with payment deferred. Mr. A sells goods. He does not need gold; he is willing, therefore, to accept in place of it a promissory note upon which he can get gold whenever he desires. He buys of Mr. B. Mr. B has no use for actual gold either, and he willingly receives the bank-note from A, passing it on again to C,—and so forth. Now, what is the condition which makes this circulation possible? It is the positive knowledge or belief that the gold is ready at the bank for the redemption of the note at any moment that the same may be presented. As a rule, the gold (or the other commodity used for money) is not wanted for itself. What is wanted is a thing possessing a well known,

reasonably fixed, and generally current value, in exchange for which the holder can obtain goods as valuable as those he gave for it. A bank-note is a claim for a definite amount of that supreme commodity which has the qualities of recognized, fixed and universal value. So long as it remains above suspicion, therefore, it will readily circulate, until it is deposited or falls into the hands of some one, who, desiring gold for manufacture, or exportation, or other special purpose, presents it at the bank for redemption.

This is as simple as A B C. The bank-note is able to be a medium of exchange on a par with gold, as long as it is a perfectly good evidence of a perfectly sound gold debt, which can be collected at once and without trouble. A note for a gold dollar is as good as a gold dollar as long as you can get the gold dollar for it. But it is very well known that a bank of issue keeps on hand an amount of gold sufficient to redeem only a portion of its outstanding notes—anywhere from a tenth to a half. The discovery of this fact recently by paper-money advocates, has driven many of them into a state of frightful agitation, and it may not be amiss to quote here from the most prominent organ of the paper movement, the Cincinnati *Enquirer*. Speaking of the proposition to require the National Banks, as a preparation to re-

sumption, to accumulate gold to the amount of one-third of their circulation, it said, with withering sarcasm, "What a magnificent security! Every National Bank ten dollar note is worth ten dollars in coin, because behind it there are three dollars in specie for every ten issued in paper!" Now it would seem that a school boy would be ashamed of such a blunder as this. When a merchant draws a promissory note acknowledging a debt, does the man to whom it is offered want to be assured of the amount of money the merchant then has in his pocket? Not at all. The merchant might have not even a nickel about him nor a dime in the bank, and yet his note be good for a thousand dollars. Why? Because he possesses the property, the merchandise, the things of value, by the sale of which he can obtain the money when the note is due. The notes of a merchant have a particular day for payment. The drawer thus knows when they will be presented for redemption, and need not provide the cash except as the special times arrive. But the notes of a bank are payable at any time. Hence the necessity for the banker to keep ready from day to day so much cash as experience and calculation tells him he will need to meet the demands. But back of both the commercial note and the bank note is the same security

—property, things of value, which can be sold to procure money to redeem the paper promises. The mistake of the *Enquirer* is in counting the bank's simple "reserve" of ready cash as its total resource for the security of its notes.

Understanding these things, we should be able to see clearly, precisely what the advantages are of the employment of a paper currency in lieu of gold. If it were necessary to keep in the bank a dollar in gold for every dollar in notes issued, there would be no economy whatever in the system—except that arising from mere convenience, and that from the saving of the wear of gold coin. But as it is, one-third (let us say) of the property against which the notes are given can be turned into gold for the reserve, and two-thirds put in the form of productive capital. Supposing, for the sake of illustration, that John Smith has $100,000 in gold coin, and with this capital establishes a bank of issue. This is not the process, of course, but the principle may be thus exemplified. He may issue notes to the amount of $100,000 and these notes will be as good as gold for the ordinary purposes of trade. He has a gold dollar ready for every note for a dollar that he puts out. But presently he discovers that there is no probability of the simultaneous presentation of the entire $100,000 of

notes. He finds, say, that even in times of alarm only $30,000 notes can be returned to him within a short period. Hence he is perfectly safe, his notes are perfectly secure, if he takes $70,000 of his gold and lends it in such a way that he can get it back without delay in case of need. Supposing that capital put in the New York Grain Elevator Company can easily be got out again, he may lend his $70,000 there, thus aiding a great public enterprise. The $30,000 coin reserve will meet all ordinary wants, and should a "run" come, he will immediately sell his Grain Elevator shares, and be ready with the proceeds to meet all his $100,000 of notes as they are presented. In this way, the whole country receives benefit from a properly managed paper circulation. A large percentage of what otherwise would lie idle in bank vaults, in safes and money drawers, is added to the producing capital of the country. In our National Bank system of note issue, it is added to the capital loaned the government.*

But is there anything in all this to prove, or even

* The fact that the capital for the security of the National Bank notes is invested in government bonds, makes it difficult for some to see how the country saves any productive capital through the paper of these banks. The inflation sheets never weary of shouting that the government pays the banks for the privilege of holding their property in safe keeping. This is their manner of stating, that the government pays interest on its bonds, and that it compels the banks

suggest rationally, that the entire amount of gold could be dispensed with; that notes could be issued on the "basis" of miscellaneous merchandise, or on the so-called "credit" of the government, without any pledge or provision for their payment in any definite amount of any valuable thing? The paper-money theorist thinks he can mark a process by which paper, or what he calls "credit"—is being

to put their capital for a circulating currency in these bonds—holding the samein the government vault that there may be no question as to the integrity of the security. The only answer necessary is, that the capital originally given for these bonds was applied in the destruction of war, yet was in essence capital of production, nevertheless. It did not produce in the common material way. It was employed in conserving the government. The capital expended and "destroyed" in putting out fires, or in procuring police service, is, in essence, productive capital. Now the present holder of a government bond may not be, perhaps, the very person who loaned directly to the government in war time. But if he is not, then the person who did so loan, has been paid by him; he is, in effect, the person whose capital was expended in the operations of war. It seems almost necessary to apologize for explaining matters so simple, but there are cords of floating print on this subject which will justify even the demonstration of an axiom. Even accepting the fallacious reasoning about capital used in destruction, every man knows that the debt of the government must be carried. If the National Banks carry with their capital a certain part, other capital to a like amount is left to seek investment in grain elevators, mines, railways and what not. Finally, the National Bank system was instituted in 1864, in order to make a special market for government bonds. The government credit was impaired, it could not borrow fast enough; it adopted the expedient of encouraging the establishment of banks of circulation, whose notes should be secured by government bonds.

gradually substituted for money having intrinsic value, the end of the process to be the entire displacement of the latter money by the "credit money." But if we analyze a little we shall find that this process has not even begun. The paper note never really takes the place of gold; it only discharges one of its functions; it is only a substitute for one of the qualities of the gold coin. The gold stands behind still, discharging the functions of a measure of value and a standard of value. And the qualities by which these functions are discharged are simply indispensable.

CHAPTER XIII.

CONVERTIBLE NOTES SELF-REGULATING.

IN our study of gold currency we saw that under the natural laws of trade, in the absence of false restrictions, a country will always have just as much gold as it requires and no more. An excess will find its way into the bank vaults, and thence be exported. A deficiency will create a demand which will be supplied from abroad, precisely as the demand for any commodity is supplied. Gold currency, in respect of quantity, is naturally regulated by the operations of the laws of trade. Is a convertible paper currency naturally regulated also? This is an important inquiry, since it involves the rationale of the "more money" cry not only of the paper theorists, but of many who would scorn the thought of sharing in inflation ideas.

Bank-notes are issued by bankers: cannot the bankers, then, determine of themselves how many or how few bank-notes shall be thrown into the business channels of the country? Evidently they have

power to contract their circulations, but—except for prudential reasons, which are good reasons for the public also—their interest is against contraction. Every note withdrawn is redeemed with so much capital taken from the work of production. Wherefore, in pursuance of their own good, the bankers can be trusted to supply as many notes as they think the public need, provided they have the ability. So far the natural laws of trade tend to regulate, precisely as they do for the supply of hats, or tack-hammers or soda-crackers. But supposing the banks underestimate the needs of business, or contract their circulation unwisely, what happens? A frightful stringency? a strangulation of trade? a general crash?—see inflation organs—the "destruction of values?" the delivery of the country into the hands of the "money tyrants?" Not at all. The consequences are simply those which follow a dearth of gold: a freer use of checks and book accounting and general credits, and an importation of gold if this prove necessary. In the direction of making good deficiencies, therefore, a convertible paper currency is regulated, as far as wise regulation is possible, by the self-interest of the issuers; while the other credit appliances and the gold currency stand always ready to press into the gaps.

But how is it in the other direction? Cannot the bankers over-issue, and cause an inflation, as certain inflationists, with pleasing consistency, profess to fear? This question ought to be readily disposed of. What is an over-issue? An issue of more notes than the public have need of—more than they want. But the public are not compelled to accept bank notes. If they do not need them, do not want them, they can collect their debts of the bank in gold, and carry what notes they have to the bank for redemption. Inflation of the currency with convertible notes is simply impossible.

There is a certain kind of loose talk about "inflation," which, since it is often hurled at the bank-note in this connection, and is used generally as an argument against the system, it will be well to notice in this place. The gist of it is that at certain periods we find the banks lending wildly to speculative ventures; that as the result of this "inflation of credits" speculation runs riot, until the bubble bursts, and the speculators and the banks go down together; and then, the resources of the banks being swallowed up, their notes become merely the evidences of bad debts.

A part of this is true. But the trouble is that it has no particular application to the subject in hand,

namely: the over-issue of convertible notes—the forcing of paper into the channels of trade in opposition to the desire of the people. No monetary system can prevent speculative fevers, nor preserve bankers from infection. No monetary system can supply bankers and capitalists and business men with sagacity, shrewdness, coolness, prudence. Money is a tool; bank-notes are tools. We do not prevent bloodshed by prohibiting the manufacture of knives. We cannot prevent foolish investments by suppressing bank-notes. Nor, on the other hand, do we cause murder by making cutting instruments; nor produce speculation by issuing investing instruments. Mark another thing: bank-notes are not the instruments by which speculations are chiefly carried on. When a bank grants a loan of $10,000, it does not pass notes over the counter. It puts a line of figures in its books, and the borrower draws checks, whose ultimate settlement is effected by gold. A few bank-notes may be drawn, but the proportion will be trifling.

The bankers have no power to inflate their convertible notes. The people have power to draw out more than they can profitably employ, just as they have power to draw out gold to fling it into the sea. The only bearing which the matter has on the note

question, is that of the security of those notes. The lesson of broken banks has been learned in England and in the United States; the Bank of England notes and the United States National Bank notes are made unbreakable by a deposit of sufficient securities in the hands of the government.

One other phase of the notion that banks have autocratic powers in forcing their notes to circulate, is that which manifests itself during times of panic in the cry for freer issues of paper. There has been a financial crash, trade has stopped, money therefore does not circulate, gold and every kind of real property is held by the lucky possessor, bankers' and all other similar demand promises are presented for substantial payment. As a consequence, money, gold, is "scarce." The hapless debtor cannot get it by selling goods, nor borrow it from the already depleted vaults of the bank. He clamors, therefore, for bank-notes. Let the banks only send out their notes freely and the trouble will be tided over. Will it? Suppose Mr. A is a hard pressed debtor. The bank makes him a loan and gives it to him in notes. What does he do with them? Why he pays them to his creditors, B, C and D. But B, C and D have no use for notes; they present them for payment in gold, or deposit them, and draw checks which enter

into the reckoning whose balance must be settled in gold. The banks cannot keep their notes out, if the public does not want them. If they have not available the thing the notes stand for, they cannot issue the notes without risk of bankruptcy.

CHAPTER XIV.

WHO SHOULD ISSUE PAPER CURRENCY?

THIS seems a proper place to meet the question, so often urged in these times, Who should issue paper currency—the government or private banks? The basis for the question is the consideration, that the profit earned by paper currency is in reality the interest on property owned by the holders of the notes—that is by the people. This fact should be clearly seen. Suppose that John Smith, without owning a cent's worth of property, writes or prints notes by which he promises to pay to the amount of $100,000. And suppose that his fellow-townsmen have confidence enough in him to sell him $100,000 in gold and accept his notes for the coin. Now it is clear that if John Smith honestly keeps that coin locked up in his chest, he can redeem his notes as fast as they may be presented. His note circulation is perfectly sound. And again we see that he is now in the same condition precisely as was the John Smith of

Chapter XII. It is not necessary for him to keep the entire amount of gold in the chest. He may lend $70,000 to the Grain Elevator Company, and gain dividends on the shares. But whose property buys the shares? Why the people's. John Smith does not really own it, yet he gains the interest of it. His fellow-townsmen have merely entrusted it to his care, and are willing that he shall make what he can with it, so long as he is ready to give it back when they want it. And this is what a note circulation means in every case. Every note is a claim upon the issuer, and to say that the holder does not present the claim for payment is only to say that he lends to the issuer the property covered by the note

So then, they are right who say that the people, in reality, own the capital against which circulating notes are put out, and upon which the interest is gained. But when they draw the conclusion that the people should therefore have the entire profit—or, what is the same thing, that the notes should be issued by the government, they go too fast. The man who issues the notes and manages the capital collected against them is worthy of his hire. Suppose it were possible by some device, to bring together all the little waste patches of land in a farming community, the roadside bits, the corners of

lots, and join them in a field for cultivation and production. This field would be the property of the farmers; but if John Smith stood ready to put the scheme into effect and make the field productive, it would be entirely equitable to let him do it and "farm on shares." Nevertheless, the farmers might not be willing. They might prefer to entrust the enterprise to the county sheriff or some officer to whom they would pay a stipulated salary. So let us examine further.

The government has a right to issue the circulating notes. But the abstract right of the government to do a thing is not a sufficient reason for doing it. Is it wise? Is it politic? The only substantial right here claimed for the government is the right of making profit. But for the sake of the mere profit would the government be justified in undertaking the running of railroads, the manufacture of gas, the management of express lines and telegraphs? Evidently not. It is justified in working the post-office, the water supplies, etc., solely for the reason that it can perform these offices better than private companies could. Unless, therefore, it can be shown that a government issue would be better and safer than a private issue, we must decide against adding this business to the already complicated duties of the State.

The great reason why many do not easily discover a clear answer to the inquiry appears to be, that they do not hold distinctly in view the character of that paper currency which is the subject of the controversy. The question, "Who should issue a non-convertible currency?" would be an absurdity. Nobody can issue such a currency except the government, and as we shall see, it should not, except under pressure of the direst necessity. If the question has any significance at all, it must refer to a convertible currency. But the supreme requisite of convertible notes is that they shall be redeemable in gold immediately on demand, and without even a suspicion of failure. The question then becomes, How can this convertibility be best secured; in an issue by the government or an issue by private banks?

Let the government undertake the business. It must, in order to maintain the convertibility of the notes, keep on hand a proper reserve of gold, support offices of redemption, and, in a word, run the machinery of note issue precisely as a private banker would, an exception of dubious import being that the capital against which the issue is made will probably not be anything more definite than the prospective proceeds of taxes. Now is it likely that under such a system, the convertibility of notes would be made

so certain that they would be not only redeemable in fact, but raised above suspicion? Assuredly the experience of America does not give us much ground for confidence. At the very threshold of inquiry we are met by the fact, that the government cannot be compelled to pay its debts. The "resources of the country" cannot be levied on if the treasurer says he has no means of meeting the notes. Whether the necessary gold reserve would be kept would depend upon an officer of the government, only accountable as such officer. Moreover he would be a person appointed under political influences, and would be subject to "rotation" out of office about the time that he began to understand his business—if he cared or was able to understand it at all. And he would be hedged about by the law-making powers of Congress, which could, if it so wished—either from visionary notions or to further some political scheme—so tie up his resources that he could not pay the notes if he desired. In a word, "politics" would accomplish here, as it has in other similar fields, its miserable work of corruption. And not even an honest administration would be a safeguard, since honesty is not an assurance against the dreams and delusions of "statesmen."

These considerations, and considerations which

go with these, would seem to be decisive. Nevertheless, the government has a duty in the premises. Entrusting the issue to private banks, it must exercise its prerogative so far as to make certain that the faith of the people shall not be betrayed. Bank-notes are so impersonal in character, circulating from hand to hand without the chance of such verification as is practicable in a check, or any ordinary promissory note, that the public have a right to oversight through the government for their protection. The right is the same as that involved in the State inspection of steamboat boilers, or savings banks, or insurance companies. And furthermore, the people's real ownership of the note capital gives them a right to a portion of the profit, to be received by the government. Our National Bank system of issue—like that of the Bank of England—includes these provisions. A tax is levied on the circulation, and the notes are required to be secured by government bonds, these bonds being lodged in government keeping.

Yet, here again, misapprehension often arises. "You object," it is said, "to basing a paper currency on the credit of the government; and now you declare that to put a currency on such a basis is a good plan." But observe that the principle for

which we contend is the right of governmental supervision of the securities of the note. The first requisite of the notes is convertibility—a requisite which would not be fulfilled under the ordinary working of a government office, conducted by the average office-holder, and ruled by the average legislator. But the privilege of issue being given to a private bank, the question arises, In what form may the capital for issue be best put? The private bank cannot be trusted to answer that question, for reasons which the days of "red-dog," and "wild-cat" notes, "Peterson's Bank Note Detector" and strings of exploding banks made very evident. The government therefore selects the form of investment—and the government bond is here found safer, or more easy to examine into, than mortgages, grain elevator shares, or mining stock. The office-holder, the politician and the legislator have, certainly, dangerous powers over the values of government securities, nevertheless they are practically found in this country to maintain themselves well. The case would be different with a South American republic. Our resources give abundant margin for waste and thievery, without touching the government obligations.

Whatever else may be objected to in the National Bank scheme, the system of note issue is essentially

the true system. The government yields its privilege, but takes a share in the profits—at present, one half of one per cent each half year on the average of circulation. The notes are printed by the government, thus securing an excellence of workmanship and a uniformity which are most effective guards against counterfeiting. The bank desiring to issue must present government bonds, when notes to the amount of ninety per cent of the bonds will be entrusted to it. Thus the circulation is positively kept within the limits of the securities, and the breaking of the bank does not affect its circulating notes by a jot. They are redeemed by the government from the proceeds of the sale of the bonds, and the knowledge that they will certainly be thus redeemed keeps them always convertible in the market. When the country returns to specie payment, their merits will be more conspicuous than now.

CHAPTER XV.

INCONVERTIBLE NOTES—LEGAL TENDER.

IT will now be in order to consider directly the main feature of the paper-money theory. Holding fast to the principles already established, we shall find no difficulty in steering a straight course through the chaos in which the subject is involved.

The characteristics of inconvertible notes in their usual form are readily marked. They are notes issued by the government, or having in some substantial fashion the government authority at their back. They come into existence sometimes through fraud but commonly under some tremendous pressure. In the case of the United States, they originated in the dire necessity of a gigantic civil war. The need of means in that tremendous exigency was so sudden and so great that, the small treasury reserve being swept away like a handful of dust, there was no time to impose and collect new taxes, or even to negotiate a loan, to meet the immediate demands.

The national banking system gave some relief by creating a market for government bonds, but that was not established until 1864. The necessity was imperative, and the usual resort was had. A loan was "forced" (we use the word in no invidious sense, but merely as a technical term,) by an issue of inconvertible notes. It will serve convenience to study especially these United States notes as types of their kind.

They make acknowledgment of debt in their promise to pay, but they name no day for settlement. Now, in the eye of the law, notes of this character are demand notes, in the nature of due bills. Had the greenbacks been issued by an individual, the holders would have been free to collect, by the usual processes of law, the money acknowledged to be due, with interest reckoned from the date of issue at the lawful rate. But they were issued by the government, and the usual processes of law are not available. The government cannot be sued. Hence, the ground of the value of the greenback is simply the trust that the government will voluntarily fulfil its promises. And when the greenback was first issued, the government virtually declared its intention of being ruled as far as possible by the common practice. Believing that it could

not pay its demand notes at once, it issued them with a general understanding that their redemption would not be expected until after the close of the war, and meantime, although it did not directly allow interest, it partly made amends for the omission by offering to exchange the notes at par for interest-bearing bonds. This seems to be the truest view to be taken of the nature of the greenback; yet it may do no practical harm to receive the more commonly accepted theory, which is, that the government, finding itself unable to borrow fast enough on its interest-bearing bonds, forced its notes out and then offered to fund them into an ordinary bonded loan. This privilege of funding was afterward taken away (a bit of legislation which flung wide the door of inflation) but its existence in the beginning marked indubitably the original character of the government note issue. However we may look at it, the greenback is an acknowledgment of a debt, to be settled when the state of the national finances will permit. In the midst of war, the question of the stability of the government affected its value, but since then this doubt has been ruled out, and the notes rest simply on the national honor, or on the prudential wisdom of the government in making its credit good.

But even with every confidence in the resources

of the country, and with this pledge of the national honor for the ultimate redemption of inconvertible notes, it might still be very difficult to get such notes into circulation, for reasons which lie in human nature. Mr. A may have every confidence in the paper himself, but he may fear that B, who is a foreigner, or C, who has dyspepsia, will not have such confidence. But the paper is of no value to A unless he pass it on to B and C. He is therefore unwilling to exchange his goods for it unless his uncertainty is dispelled. It is to meet this difficulty that the government resorts to its supreme power and declares its notes "legal tender." B and C will have no option in the matter: If A owes them money, he can make "legal tender" with government notes. And everybody will take these notes, because they know that everybody else will be compelled to receive them at their face valuation in payment of debts.

It is somewhat outside of the scope of this book to discuss the question whether the greenbacks should have been endowed with the quality of "legal tender"; but it is in place to invite attention to the fact that the effect of that quality is simply to compel the ordinary creditor to accept a promise from the government in lieu of immediate payment by an individual. And the consequence of this is, that if the government note declines in value (as it com-

monly does) the creditor is defrauded of the amount of the discount, except under one condition, namely, that he has calculated that discount in fixing the terms of the debt. To be sure everybody does thus calculate according to his opportunity and power; but the unfortunate circumstance is that opportunity and power are given very unequally. The army contractor was able to exact high prices of the government for the supplies he furnished, but the producers of those supplies were not in so good a position to force high prices from the contractor. The effect of "legal tender" was that the government put itself under bonds to pay twice and thrice a fair value for what it bought during the war, while the enormous profits of these transactions were chiefly divided among speculators, and those whose hands were on the price lever. And we shall see that the evil did not stop at this bad distribution of the payment for war supplies, but extended into all trade with the same pernicious result. The bare fact is, that a legal tender note will decline at least as rapidly as any other note, and from like causes, which the nature of the note itself necessarily tends to aggravate; and while it is declining it is an instrument by which those who can most readily manipulate prices can despoil the general public legally, and under the guise of legitimate business.

CHAPTER XVI.

INCONVERTIBLE NOTES NOT SELF-REGULATING—WHY WE LOST OUR GOLD.

WE have seen that a gold currency is self-regulating in respect to quantity, because excess is got rid of by exportation and deficiency supplied by importation; and that a convertible note currency is self-regulating, not only because it is always supplemented by a gold margin, but because, also, an excess is at once cut down by return to the issuer, and a deficiency supplied by the response of the banks to an opportunity of profit. But how is it with inconvertible paper? Evidently there is no regulating power in it. The notes once out stay out. Had the right of conversion into six per cent bonds been retained for the greenbacks, any excess of issue would have returned to the Treasury in exchange for those bonds. But that right denied, all the paper issued had to remain in the channels of trade. Now, upon a little reflection it will be seen that so long as an inconvertible issue keeps well

within the need (provided always that the expectation of ultimate payment be unshaken) the notes will remain at par. They occupy practically the position of that amount of floating paper which, under specie payment, is never presented for redemption. The people want a certain quantity of paper notes at all times. If the government issue does not exceed the amount for which the people have good use, if it does not pass the line beyond which should be the gold margin, maintaining the standard measure of value, and performing by its flow and reflow the functions of a regulator, then such paper issue can be sustained on an equality with metal. But the moment that limit is overstepped depreciation inevitably begins. There is no new or exceptional law in this action of paper depreciation. If the quantity of gold possessed by the world were to be increased beyond business needs, its purchasing power would decline; there would be a general rise in "prices." But a country is the whole world to a paper currency, because paper is "non-exportable." The excess of supply over demand cannot be sent abroad, nor returned to the issuer, nor manufactured like gold coin into some other commodity; it must remain afloat and become absorbed by a general rise of the prices of all things measured by it.

And what happens as this process continues? Simply this:—With every fresh addition to the currency, the whole volume loses in purchasing power. But gold will not submit to this loss, because it can seek a foreign market where the local cause is not present. Hence gold runs steadily abroad; it becomes a superior currency, and paper, the inferior currency, drives it out. Or again, we may look at the working of affairs from another point of view. Prices rise: what happens then? Surely what we saw in our study of the self-regulation of gold would happen. Imports increase, and exports are discouraged. Foreigners send in merchandise on the rising market, and refuse to receive other merchandise at the stiff valuations. Hence the home gold must go out to pay for the imports. To put this in still another way, the increase of importation and discouragement of exportation, both caused by high prices in the home country, make "exchange" low abroad and high at home. Hence foreigners settle their balances by exchange, while the home merchants find it more profitable to pay in metal. (See Chap XXIII.—Foreign Exchange.) The analytical mind will discover that we have thus said the same thing in three different ways.

One point here seems a difficulty to some. If

goods rise in value, they say, with reference to paper, so also does gold. Hence a merchant might as well pay his foreign debts in goods as in the precious metal. Unfortunately for this argument, gold never rises in paper valuation so quickly, nor so much, as goods. The general advance in "prices," due to the shrinking of the paper measure of value, does not take place in just proportion. Some things rise more than others; ratios of exchange are falsely disturbed. That is to say, some things acquire a greater purchasing power than properly belongs to them, while other things have their proper purchasing power reduced. Broadly speaking, labor loses most, and merchandise gains most. Gold remains nearly on the medium line, with an inclination to the losing side because the demand for it is lessening. It certainly advances to a "premium" in paper, but it cannot advance in purchasing power as can ordinary goods, for the simple reason, illustrated before, of its extreme portability. The least tendency to rise is met by an import; which is not the case, to such a degree, with common merchandise. The result is that in real value, real purchasing power, the inconvertible paper stands lowest, gold next, and goods highest. The home merchant cannot pay his

foreign debts in paper; he chooses gold as the next cheaper thing.

Finally, we may take this view. A merchant does not owe any debt abroad but wishes to buy. With what will he buy? Certainly with that which he can here obtain cheapest, and there exchange for the most. And this is gold. Other goods have risen abnormally here; they remain at the gold prices abroad.

Thus we find that we reach the same conclusion in all directions. But it is only in theoretic analysis that these various causes may be separated; in the actual working, they are found inextricably mingled together, acting and re-acting, with the one final effect of driving away the metallic currency, and leaving the depreciated paper in possession of the field.

CHAPTER XVII.

INFLATION.

IN a book of such limits as this it would be vain to attempt to portray adequately the evils of an inconvertible currency. But the completeness of our chain of logic seems to require this link, and it may answer the purpose to make some general observations, trusting to the reader's own experience to give them an effective application. Our last chapter showed paper declining in value with every fresh issue—and this regardless of the belief in the ability of the government to redeem in the end. The real ultimate worth of plows will not prevent their fall in exchange value, if there are more made than the farmers can use.

The paper "dollar" declines in purchasing power. Nevertheless, by the legal tender act it remains the common measure of value. Let it be marked clearly what this means. A merchant possesses a hundred yards of cloth which he sells on the valuation of one hundred "dollars." He does not

receive the cash to-day, but two months hence. Meantime the purchasing power of the "dollar" has declined ten per cent. The merchant receives the hundred "dollars" stipulated, but when he goes to replace his stock for further business, he discovers that his hundred "dollars" will buy only ninety yards of cloth. "Prices" have gone up. He has lost by his trade the value of ten yards of goods.

It must be marked again, that the downward movement is not the only one which ensues. The need of the country for money is greater at one time than at another; it changes from day to day. With gold money these changes are met by the constant flow and reflow of metal by natural trade laws. With inconvertible paper there is no "governor." An increased demand for paper increases its value, by diminishing the excess; while a fall in the demand lowers its value by increasing the excess. The measure of value is constantly fluctuating. And let it be emphasized that these fluctuations are not confined, as some curiously imagine, to the $800,000,000, or so of currency, but enter into every business transaction where the "dollar" is used as a measure of value,—affect the millions and billions of trade-exchange throughout the whole length of the land.

Further, it must be evident that these changes in the standard will not touch all interests equally This is where the great injury presses, and whence the final strangulation of trade arises. Those who have loaned money, women who have a little store in the savings' bank, widows who depend upon an annual interest, possessors of mortgages—all these classes must suffer to the full amount of the depreciation. They simply hold claims for "dollars," and have no means of making good the loss of purchasing power. The laborer, the man in any vocation of wage or salary, must bear a heavy proportion of the loss. He is not in position to exact an extra number of "dollars" to compensate for the depreciation. But the manufacturer and the merchant, when they perceive whence their losses come, begin to protect themselves by raising the "prices" of their wares. And they raise them to a degree which not only keeps pace with the fall of paper, but which outstrips it, and leaves a margin for insurance against risk. Farmers suffer much, because wheat is really valued in the foreign ports whither much of it is exported; that is, it is put on par with gold—which as we have seen, must remain cheaper than general goods. At the one end of the trade line, the merchant receives high prices for what he sells,

and pays low prices for what he buys; at the other end the farmer—the laborer—the man of wages—the man of salary—receives low prices and pays high prices. The conclusion is inevitable: the foundation producing classes are ground to powder, and the producers and exchangers higher up in the industrial structure come tumbling headlong. The current phrase is pregnant with truth: "The bottom has fallen out of everything."

"But," it is objected, "these times when this ruinous process is supposed to have been going on were times of piping prosperity." Nothing could be more fallacious than this common saying. During these years of violent changes of the standard of value, many found themselves suddenly endowed with wealth for which they had given no adequate return. The treacherous measure had taken from others and given to these. Yet those who had lost were not aware of it. Had they not so many "dollars?" or goods whose "price" was so many "dollars?" And thus a merchant turned his capital over and over, getting less and less in real value, yet more and more in "price" and number of "dollars," until the crash came. Then prices "settled," and the merchant found he had not enough value to meet his obligations. Had this been all—enough surely!—in the

period of "prosperity," a few cunning or lucky ones would now be richer, and the many foolish or unlucky ones poorer. But this was not all.

The period of "prosperity" was really opened by the war. The destruction of the gigantic civil strife created a demand for enormous quantities of all kinds of manufactures, produce and merchandise. Those whose business it was to furnish these supplies reaped great profits, and such of them as were shrewd enough to cut off their operations before the demand stopped, kept fast hold upon their riches. But very few were thus wise. The war induced many to build great factories, whose manufactures could not find sale in times of peace,—to cultivate lands at such cost, that the failure of the excessive consumption of the war inevitably brought loss. While the destruction of wealth continued, things were "lively," all staples and all war supplies were in great demand, and the handling of these kept the "wheels of trade" running, for nobody was really paying for the things destroyed; they were bought by the government with its bonds. They were to be paid for by future generations. And then came another cause of "prosperity." The gold of the country was exported and goods received in return. These goods passed into the general material for consumption, while the loss of

the gold was not felt at the time, because of the supply of paper currency. In a word, this period of "prosperity" was a period of extravagant consumption. A man who has a fortune of $100,000 may be very "rich" for a little while by consuming $50,000 a year. But when his capital is all gone, poverty strikes him.

And yet again, the presence of a fluctuating and depreciated currency, in connection with these other causes, brought on the era of speculation. The continual variation of the standard made all business compulsory gambling, to the end of driving conservatives out of trade, and of awaking the love of gambling latent in the breast of most Americans. The gambling spirit became rife through the States; people became impatient of the slow and sure road to competence, and feverishly sought means of acquiring wealth at a stroke. As illustrative of the many unhappy results we may consider the railroad mania. And just here let us step carefully.

Wild-cat roads may be built under a perfectly sound currency. Capitalists may rush into all kinds of mad speculation although the currency is the best ever devised. As we have pointed out before, the mere *tool* of trade cannot become a directing power, and actually control the working of men's minds.

The mischief is done by inconvertible paper, or rather by the lowering of the measure of value by inconvertible paper, through subtle temptations. An excess of "money" produces an impression of excess of wealth. High prices lead to a delusion of great prosperity. Over accumulation of notes in banks, and the nominal swelling of bank accounts, presents a temptation to lavish loaning—a temptation which soon may become irresistible by the confident clamors from one side for means to put into magnificent new enterprises, and a careless readiness on the other in committing those means to the banker's hands. The gambling spirit, the spirit of high speculation, and the delusion of wealth work together to entice and draw and push the country to destruction. The railroads are begun, the great schemes of all kinds undertaken. Millions of capital are either flung away or are planted where no return can be had for many years. While the delusion lasts and while the capital holds out, there is a time of great "prosperity." Work is plenty, "money" circulates freely, iron furnaces are in full blast, perhaps new furnaces are built, farmers get good prices for their produce, stuffs for clothing are in great demand, new dwellings are erected, real estate rises—everything is at the height of activity, and everybody is getting "rich" by jumps.

And since everybody is getting rich, everybody is justified in pouring money around like water. And this again makes more work, more consumption of products, more "prosperity." Finally the crash comes. The capital put into the railroad is exhausted and there are no dividends. It is found that there cannot be any dividends for years. But the loaners of the capital want it back. They demand it of the bank and the bank demands it of the railroad men. The railroad men point to their unfinished road, but are not able to sell the stock for means to pay the bank. The bank cannot pay its depositors, and breaks. And the breaking of the bank breaks a merchant, and down go a dozen houses like a row of bricks. Then the country comes out of the fog, and makes the wretched discovery that it has been living at a high rate, not on its surplus of resources, but on the capital needed to carry on its producing labors.—It had a fortune of $100,000. It has been "rich" for two years by spending $50,000 annually. Business comes to a standstill. Theorists of a certain kind call for "more money" to start the wheels of trade. Other theorists are aggrieved at the loss of "confidence." Others advise that everybody fall to spending freely and cease their "cant of economy."

But those who have suffered directly keep their capital, if they have any left, shut up as safely as possible, awaiting a solid renewal of genuine business, with a currency which can be relied upon to give a true adjustment of values

CHAPTER XVIII.

PURE "CREDIT MONEY."

WE have thus far dealt with inconvertible notes simply as temporizing expedients, issued in time of distress to make a forced loan. And we have had to do with the paper-money notion in its partial manifestations only. But this notion has a complete development; not, happily, in the experience of this country, but in the minds of visionaries, who are striving with unmistakable zeal to put their extraordinary theories into actual practice. In spite of the bitter teachings of the last ten years, in contempt of the plain lessons of history, in the face of simple logic and common sense, a school of wise-acres has arisen who declare not merely that an inconvertible paper is harmless, but that it can be permanently maintained as an instrument of boundless prosperity. In its simplest form the theory starts with the proposition that money is "the creation of the government," and hence evolves the bald dogma, that the government can make a "dol-

lar" out of a bit of tin, or a bit of iron, or a bit of paper, just as it can out of a bit of gold—simply by putting upon it the stamp of its supreme authority. We have already considered this delusion. By calling a piece of gold a "dollar" the government confers upon it no value whatever. The piece of money has purchasing power because of the valuable metal of which it is made. If the government declared that half the quantity of gold should be a "dollar," then the "dollar" would simply have half its present purchasing power. If a quantity of tin, worth, let us say, a quart of potatoes, were constituted a "dollar," then potatoes would be worth a "dollar" a quart. We should have a different scale of "prices." Government does not create the value of money; it simply declares, or defines, the unit of value-measurement, in precisely the same way that it declares the standard "yard" and the standard "pound." If, therefore, it made a bit of paper a "dollar," the "dollar" would be worth precisely what a bit of paper is worth as paper stock.

But certain of the paper philosophers have put the notion in a subtler form. This is their argument: In the beginning was barter; then came gold as a medium; and then came "credit." The higher the civilization, the less the proportion of coin

used and the greater the proportion of "credit" paper. Hence, in a supremely civilized State, coin will disappear altogether, and paper be the sole currency. This is the sober reasoning of Mr. Peter Cooper in his printed pamphlet on the subject. It forcibly reminds one of the sage who discovered that by using a stove instead of an open fire-place he saved half his coal, and straightway determined to use two stoves and save the whole of it. Or it is as if one should say to his grocer, "My friend, when I moved into this neighborhood, I had to pay you cash down for every pound of butter and peck of potatoes I bought of you. But you soon came to know me and were willing occasionally to give me 'tick.' At the present stage of our intercourse, you have acquired entire confidence in my honesty and the extent of my resources, and are willing to sell me all I want on credit. Suppose now, in the interests of a higher civilization, we carry out this process of evolution and abolish the bothersome system of periodical settlements. Let us make the thing credit all the way through!"

The process of development which these reasoners ingeniously trace has never even begun. As we have pointed out before, "credit" is no substance in itself, to be cut off by the yard, or handed round in chunks. You cannot pay a debt by presenting to

the man you owe a pound of "credit," or a square inch of "credit," or a quart of "credit." You may *defer* payment by giving "credit" on your books, leaving him to collect the debt at some future day either in money or goods; or you may defer it by giving a promissory note; or again, you may *transfer* the obligation of payment to a bank by giving a bank-note or a check, or to some other person by means of a bill of exchange or other "credit" paper. Now, the book accounts, and the checks, bills of exchange, etc., are far more largely balanced by counter accounts, checks and bills than settled by a payment of money. It may at first sight appear, therefore, that in the bulk of trade transactions money is dispensed with. But is it? Not at all. When a merchant draws his check in return for a dozen pieces of cloth, does he write, "The People's Bank will pay to the order of Philanthropic Phitznoodle a dozen pieces of cloth, or the equivalent thereof in green cheese or other articles which the said Phitznoodle may elect?" No. He writes simply, "The People's Bank will pay to the order of Philanthropic Phitznoodle five hundred dollars." In other terms, the standard dollar is present in this transaction, performing its indispensable office of a measure of value. The check only discharges the

function of a medium of exchange, and does not even do that in itself, but only through the value of the property controlled by the bank, it—the check—being a claim for a specific portion of that property. The trade, thus far, is the barter of a dozen pieces of silk, worth five hundred dollars, for an amount of the bank's resources worth five hundred dollars. The check has not bought anything, any more than the title deed to an acre of land buys in a trade. The acre of land itself exerts the purchasing power; the title deed is only the legal evidence of ownership. The specific portion of the bank's resources buys the cloth; the check only carries the title. Take away the acre of land, and the title-deed is worthless; take away the banking property, and the check has no more value than a piece of waste paper.

To sum up as to this phase of the paper money delusion: In the various forms of "credit" paper, there is no abandonment either of a basis of real value or of the monetary standard and unit of value. There must be a substantial valuable thing behind every check, note, bill and book-account used in effecting exchanges, and a unit of value-measurement must be furnished (of course by something possessing value to make measurement possible), in order that the commodities exchanged can be measured one against the other.

CHAPTER XIX.

THE "CLOSED CIRCLE."

THE pure "credit money" notion seems to take a subtler form still in the variation known as the "closed circle"—a variation sufficiently ingenious to capture so acute a thinker as the Rev. Thomas K. Beecher, as well as others of unquestioned ability in matters where they deign to study facts before evolving principles. This is the theory: A buys a hundred dollars' worth of goods from B; B buys a hundred dollars' worth of goods from C; and C "closes the circle" by buying a hundred dollars' worth of goods from A. Now the entire indebtedness of the three can be discharged by circulating a hundred dollars from any point all around the circle. But if A starts the cash going, he simply hands it with his right hand to B and receives it back again with his left hand from C. Therefore, the work might have been done as well with a button or a bit of leather, or, better still, by a scrap of paper with "One Hundred Dollars" inscribed thereon.

Now, say the theorists, let us extend this circle to embrace the whole country. Let the government issue these notes for its debts, let them pass from hand to hand in the work of exchanging goods, and let the circle be closed by their return to the government again for taxes and custom duties.

This, to some, looks very fine; but suppose we examine it. "A buys a hundred dollars' worth of goods from B." Why a hundred dollars' worth? How a hundred dollars' worth? Of course this means that A buys goods which are equal in value to a hundred of those bits of gold we call "dollars,"—or, in these days of suspended payment, equal in value to paper notes for which a hundred dollars' worth of gold is sometime expected, but which are at a discount from various causes. So again we strike gold performing its great office of a measure of value. This measurement of value cannot be made with a button, nor a bit of leather, nor a scrap of paper, having no value in itself and no definite value as a claim to anything else. "How can you say," exclaims the paper-money man, "that these proposed notes have no definite value! The government puts its stamp upon a piece of paper for 'One Dollar.' There you have your measure of value. A hundred dollars' worth of goods would be measured

in value by a hundred of these dollar notes. This elucidation is actually made. But if the government puts its stamp upon a bit of paper—"One Pound," will the paper measure the weight of a quantity of sugar? Or if it stamps a bit of leather "One Quart," can you find out with that how much water there is in the cistern? To measure weight you must have weight—not something which "represents" weight, or is "based" on weight, or is "good for" weight, or is redeemable even in weight. To measure length you must have length; to measure volume you must have volume; to measure value you must have value. With redeemable notes you do not measure value with the notes, but with the gold in which the notes are payable. And not only must you have actual weight, length, volume and value to make the various measurements, but you must have, evidently, definite amounts of each of these as units of measurement in the respective classes. So, we have the standard pound, the standard yard, the standard gallon—all determined with the utmost degree of scientific accuracy, and fixed by law; and so, also, we have and must have, the standard "dollar," a certain quantity of gold of a certain fineness; namely, 25.8 grains of the metal, $\frac{9}{10}$ fine. And the value of the labor of digging this amount of gold and fashion-

ing it into a coin is the value we choose to call a "dollar."

"But," once more says the paper theorist, "the paper dollar is to be given value by being made redeemable in taxes and customs, and the value will be definite and fixed because the dollar note will be received for exactly a dollar's worth of taxes or duties." This statement is also actually made. Now, what is a "dollar's worth" of taxes? Is it the amount of value due the government on property worth—but how shall we determine what the property itself is worth? The unit of value is a certain quantity of tax. And the quantity of tax is determined by the value of property as measured by this quantity of tax taken as a unit! We trust this is clear so far. Furthermore, the rate of taxation is determined by the expenses of government, and therefore varies from year to year:—that is to say, the quantity of tax (which determines the unit of value) due to the government on property worth a certain number of times the unit (this number being fixed by the ratio of taxation) must be adjusted from year to year, the unit of value thus changing with it, and also the "value" of the property, upon the liability of which to taxation the unit of value is based. This should be very clear at this stage. And finally——

but why pursue such extravagant but logical developments to any further degree of nonsense? We can not have a unit of value-measurement except by constituting a certain quantity of some valuable thing such unit. The United States has thus established its unit—23.22 grains of pure gold, or 25.8 grains, $\frac{9}{10}$ fine. From the necessity of giving this unit some name, it was named a "Dollar." But we cannot make a bit of paper as valuable as 25.8 grains of gold by calling it also a "dollar," nor by giving it power to cancel a tax whose value can be determined by no mortal means.

CHAPTER XX.

THE THREE-SIXTY-FIVE BOND SCHEME.

THE unquestionably strong hold which the so-called "three-sixty-five bond scheme" has gained in the minds of many is a sufficient reason for a thorough consideration of it. It is usually stated as Peter Cooper states it: "The exchangeable value of anything depends upon its convertibility into something else that has value, at the option of the individual. This rule applies to paper money. . . . . The currency must be convertible into something over which the government has entire control, and to which it can give a definite as well as permanent value. This is its own interest-bearing bonds. These are, in fact, a mortgage upon the embodied wealth of the country. . . . The degree of their value can be determined exactly by the amount of interest the government may think proper to fix. . . . This convertibility will always keep a check, both on the amount of currency and the amount of bonds. . . . But at no time will

either the bonds or the currency be a mere drug upon the market, for they will be mutually convertible."

It is sufficiently easy to reveal the utter absurdity of these propositions and the conclusions evolved from them. The only one that contains a grain of truth is the first, which, with a tautology ridiculously disguised, lays down the profound law that for a thing to have exchangeable value, it must be exchangeable for a valuable thing. The rest contain nothing but sheer nonsense. The bonds are to be "a mortgage on the embodied wealth of the country,"—and yet give no one a claim to a penny's worth of that wealth. If the bond-holder wants interest, he gets it in bits of paper; if he wants the whole sum named in the bond, he gets more bits of paper. If he still wants value for these bits of paper, he can exchange a number of them again for a "bond." In this merry-go-round there is not a pin's point of real value, but only the shadow of its name and the figures of "dollars." To suppose that value can be given a piece of paper by making it exchangeable for another piece, and constituting that other piece a title to a certain number of other pieces annually, is a most curious delusion.

But supposing these interconvertible pieces of paper to have value, how would "the degree of their

value" be determined by the amount of interest? The amount of interest could determine nothing whatever but a certain proportional relation between their values. Can Mr. Cooper calculate the value of a house which yields a rental of 3.65 per cent on its market worth? How much is it—$500, $10,000, nothing? Again we strike that extraordinary and seemingly ineradicable blunder of mistaking a name for a thing. The problem is to fix and regulate the value of the "dollar." Mr. Cooper does it by giving the holder of a hundred "dollars" three and sixty-five hundredths "dollars" additional per annum. To use a figure: Let the name of the unit of value be changed, that we may rid our minds of the prepossessions of the word and study the real thing. Let the people of the Moon agree to call their unit of value a "phantom." Now a hundred "phantoms" may be converted into a bond, bearing an interest of three and sixty-five hundredths "phantoms" annually. Have they fixed or regulated the value of the "phantom?" What is a "phantom" worth? This discussion, when we interject simple illustrations, begins to look puerile, does it not? Yet we have such conscientious men as Peter Cooper, such "statesmen" as Kelley, Baird, and Cary, and a host of others gravely propounding these ideas which we are analyzing, and

obtaining a hearing, too, in very respectable quarters. The Germans have a comical adage about the absurdity of slaying lice with a club. Yet the process seems sometimes necessary. The advocates of the bond scheme unconsciously "fix" their "dollar" before they apply their marvellous scheme for fixing it. They call the bond a hundred "dollar" bond, and their note a "dollar" note, and now, say they, it is evident that this bond is actually worth a hundred "dollars," because you can get a hundred of these "dollar" notes for it. And it is equally evident that this note is worth one "dollar" because if you take a hundred of them you can buy a hundred "dollar" bond. They "fix" the breadth of the barn by telling the builder to make it three times the breadth of the barn door, and "regulate" the breadth of the barn door by ordering it one-third the breadth of the barn.

Furthermore, there is no regulating power in interest even if it is paid in a thing of fixed value. The value of the "dollar" is to be fixed by the value of the bond; and the value of the bond fixed by the value of its interest; and the value of its interest is the value of three "dollars" and sixty-five "cents." Let us make the absurd supposition (the actual supposition of the theorists) that the

value of the "dollar" in which the interest is paid is already fixed. Will a fixed rate of interest, even in these fixed "dollars," fix the value of the bond? Evidently not, because general interest is varying continually. Suppose that the bonds of the Lunar Railroad pay a steady interest of double 3.65. This being a good rate, these bonds would be always salable—that is, would practically be as convertible into greenbacks as the government bonds. And hence, a hundred-dollar government bond would be worth in the market only half as much as a hundred-dollar Lunar Railroad bond. As general interest goes up or down, the value of securities with fixed interest must go down or up. This is the case with the English "consol," from which probably the 3.65 idea was derived. With its interest fixed at three per cent, and backed by the "embodied wealth of the whole country," the consol changes in price from day to day.

Thus, the more rigidly we analyze, the more utterly, hopelessly absurd the 3.65 bond scheme appears. Expunging the complexities of the theorists' explanations, their dollar is the value of a hundredth part of a title to three dollars and sixty-five cents a year. Can any one of them make any sense of the definition?

CHAPTER XXI.

THE BOND SCHEME AT ITS BEST

IN our last chapter, we saw how utterly absurd the three-sixty-five bond scheme is as it is presented by its chief advocates. It ought, however, to be noticed that this formal presentation is neither accurate nor true, and is never adhered to in the face of debate. The louse skips under the club, and when you have annihilated one of his abiding places, he has secured another which is at least just as good. Now, it is a real misfortune that the precise nature of the bond idea is not generally understood either among hard-money or soft-money believers. The failure on the one side to analyze it, and the inability on the other to present its points clearly and in order, has thrown a dense cloud over this field of the conflict, so that while the combatants strike lustily, each declares that he feels no blows, and the mere spectator can only guess at the results of the battle. The assertion may seem remarkable, that the paper advocates are not

able to present their own theories; but a discussion with them, or a study of their pamphlets will amply illustrate the fact. The lack of logic which makes it possible to hold the paper-money theory, prevents at the same time the systematic formulation of it. The matter becomes less extraordinary, when we consider that the systematic formulation of such a theory is its refutation.

Gathering up the fragmentary ideas which the paper theorists scatter through their writings, we shall find that the 3.65 bond scheme is really a variation on the "closed circle" plan. The bonds are simply intended to regulate the volume of the currency, and not—at least not primarily—to give value to the notes. They are designed simply to furnish an outlet of investment for excess, and a reservoir of currency to meet increasing demands. They are the patent attachment for securing "elasticity." In default of any clear and straightforward statement by an advocate of the scheme, let us make one ourselves of as strong and plausible a kind as possible. We may do it thus:

1. The government receives service from individuals and renders service to the whole community. It pays and is paid. And the sum it pays out is exactly equal to the sum it receives. Let this flow

and reflow from the Treasury, therefore, take place with paper. Let the government issue its notes for its debts, and redeem those notes by accepting them in satisfaction of its credits—for taxes, etc. That which will extinguish a debt—as a debt of taxes, customs, duties—has a natural value.

2. But notes redeemable only by acceptance on counter claims might be issued faster than they could be returned. Or again, notes issued only for goods and service rendered the government might not be sent out fast enough. Hence the danger on one side of an excess and consequent depreciation, and on the other of a scarcity and a constriction of business. To avoid both dangers, to enable the volume of the currency to expand and contract according to the varying demands of trade, let the notes be convertible, at the option of the holder, into bonds bearing a daily interest of one cent on a hundred dollars, and let the bonds be convertible, at option, into notes. Any excess of notes will then be immediately corrected by the investment of the surplus, over ordinary business requirements, in government bonds —practically put out at 3.65 interest in call loans. Any scarcity will at once be met by a reconversion of bonds into greenbacks.

3. Back of both the bonds and the greenbacks

stands the credit of the government, based on the embodied wealth of the whole country. Nor is this security a delusive one because the government does not propose to make over that wealth in bulk to the holders of bonds or notes. The significance of the assurance is that the government will always have power to draw taxes, customs and duties from that wealth, and thus redeem its notes and pay the interest on its bonds.

This, we think, is as strong a statement of the bond scheme as it is possible to make. It would be easy of course to make it less vulnerable to passing criticism by involving it with illusory complexities. But as a plain, straight-forward presentation of the plan, we think our formulation fairly embraces all points of strength or plausibility. Even should a paper-money believer deny this, he cannot deny that it brings out clearly the chief features of the bond idea.

Yet the careful reader of these pages will have no difficulty in detecting a weakness in the scheme which reduces the whole structure to cloud and smoke. Where is the measure of value and the standard of value? The notes are to have value because they will pay taxes. A "dollar" note is to be worth a "dollar" because it will be received for a

"dollar's" worth of taxes. How much is a "dollar's" worth of taxes? How can you measure off any definite quantity or value in taxes, customs or duties? We could measure off a yard of cloth, and call that a "dollar." This would give us a measure and standard of value, although as a standard it would be very variable. We could measure a bushel of wheat, or a peck of potatoes, or a gallon of milk, or a pound of butter, and constitute any of these the unit of value-measurement, calling it—if we liked the name—a "dollar." But how can we measure off taxes?—by the pound, by the foot, by the quart?—is there any possible way of measuring them? Evidently the only way to measure taxes is by a measure of value. A tax is imposed as a certain per centage of the value of the property. You have got to have your unit of value-measurement, your "dollar" or whatever it may be, before you can measure taxes at all. It is as sheer nonsense to talk of using taxes as a measure of value as it would be to say we will establish a unit of value by per centage—let us call five per cent a dollar. Five per cent of what? The only way to obtain a measure of value is to take some valuable thing which can be measured, and agree that a certain quantity of it shall be the unit of value. The United States has taken gold, and

declared its unit of value-measurement to be 25.8 grains, $\frac{9}{10}$ fine. It calls this quantity of gold a "dollar"—it might have called it an "eagle," or a "dime" if it so chose. And for convenience and the security of the people, it puts this quantity of gold and multiples of it in the form of coins, stamped with the government certificate of value.

CHAPTER XXII.

FRACTIONAL CURRENCY.

THE ill-advised measure of "silver substitution," that is, the substitution of silver "change" for the paper fractional notes, has been so unfortunately confounded with the specie resumption question, that a few words respecting it are necessary.

The first principle of subsidiary coinage is simple enough. Gold is too valuable a metal to express conveniently the small values of minor exchanges; a "cent" in gold would weigh about a quarter of a grain. Therefore, cheaper metals, metals having more bulk in proportion to their value, are used, as silver, nickel, copper.

But the matter becomes a little more complex when it is understood that, usually, subsidiary or fractional coins are made of less metallic than nominal value. They are merely tokens, and without promise of redemption in standard coin. They are the same in character as inconvertible paper notes,

and the fact that they are nevertheless able to circulate without depreciation from their face valuation is thought to give support to the paper-money idea. The reader will have no difficulty in perceiving the error. We have seen that a certain small amount of inconvertible notes, ultimately secured, might circulate without depreciation. So long as the standard money is not displaced, but is suffered to remain in the trade channels in sufficient quantity to maintain the standard of value and perform its functions as a regulator of the volume of the currency, then the legal tender paper is upheld by it. But this limitation of quantity is secured with regard to fractional coins by three provisions. (1) By direct restriction at the mint. Our mints will not coin silver upon individual order as they will gold. The mint buys the silver and issues the coin only on government account. (2) By a seigniorage, or charge for coining. The present "half-dollar" contains about thirty-seven cents worth of silver, at the present value of the metal.* But thirty-seven cents will not buy a half-dollar coin at the mint. Every man who wants such a coin must pay for it at its face value. With standard coins, the mint is only paid the proper weight of gold, 25.8 grains to the dollar. The precise bearing of this on our depreciated paper should

* July 1876.

be noticed. The original receivers of this paper paid in real value—in the value of the goods they sold—very much less than a standard dollar, twenty per cent, forty per cent, sixty per cent less. (3) By cutting off the legal tender quality. Fractional coins are lawful money, but only to the amount of five dollars. They can only be used for small "change."—These three restrictive measures are found ample to keep the subsidiary coins within safe limits and maintain them current at standard values in the ordinary course of trade. They remain convertible to all intents and purposes, by the joint operation of law, custom and limitation.

But why all this machinery? why not make subsidiary coins of exactly proportional value to the principal coins? Simply because that would put on us the expense of coining a fresh lot of change every time a slight rise in the value of silver made it profitable to export our halves and quarters and dimes. This is what happened in the year following 1848. Fractional coins were then of full value. The slight fall of gold sent them rushing from the country, and ferry tickets, 'bus tickets, eating-house cards and the like were made to serve in their stead. In 1853, the fractional coins were placed on the basis of 384 grains to the dollar instead of 412½, and they were deprived of their unlimited legal tender quality.

CHAPTER XXIII.

FOREIGN EXCHANGE.

THE matter of foreign exchange has been made a deep mystery to the general public—and even in Wall street it is possible to seek information without getting much light on anything but the technical and "practical" features. In itself it is a very simple affair, and since its abstrusities have been woven into many of the theories about specie resumption, with the result (if not the design) of convincing the uninitiated that for him to have an opinion is a bit of ludicrous presumption, it becomes important to subject these abstrusities to a common sense analysis.

"Exchange" is a process of settling accounts between parties separated by long distances, or by national boundaries. The latter kind of exchange is what we have now to do with, although there is in principle no difference between "Inland" and "Foreign Exchange." In its primal form, foreign exchange may be called a method of settling by

pairing off. Thus: American A owes Englishman B $1,000, and Englishman C owes American D $1,000. Evidently these four can square their reckoning by pairing. Let American A pay American D, and Englishman C pay Englishman B, and the whole affair will be adjusted. Exactly this is accomplished by a "Bill of Exchange." The American creditor, D, puts his claim in the form of an order, directing his English debtor to pay the money to B, the English creditor of the American A. A, the American debtor, buys this bill of exchange (thus paying D his money) and forwards the document to his English creditor, who collects his money from C. Here is the essence of the bill of exchange. But in commercial usage, by far the greater number of bills arise in a practically different manner. Thus, a merchant sends cotton to England: he does not wait for the English merchant to buy a bill of exchange and send it to him; but draws a bill himself against his English debtor or consignee, on the security of the cotton, and sells the bill to a broker. The broker forwards the same to his English correspondent, who collects from the consignee on the delivery of the cotton. This change in the process of drawing of course does not alter the character of the document we are considering.

Now let us study the main features of this credit paper. We note in the first place, that the origin of the accounts which the bill is used in settling is the exchange of goods. D sold wheat to C, and B sold tin to A. The values of the wheat and the tin are measured by gold—C and A are debtors by so many "pounds" or "dollars." But neither "pounds" nor "dollars" pass between the countries. Instead of two transportations of gold, one from America to England, and one from England to America, a simple bit of paper goes one way. Hence we see that the "bill of exchange" performs, in place of gold, the function of a medium of exchange between countries, gold remaining still the standard and measure.

Now as to the very important question of rates of exchange. A bill of exchange may be regarded as a commodity. It is, in form, a claim for a certain sum of gold, and it has trade value, apart from its specific value as such claim, because of its special uses. This trade value obviously must be ruled by the common trade law of supply and demand. When bills of exchange are plentiful in proportion to the demand, they fall in value, when scarce they rise. But what makes bills of exchange plentiful or scarce? A bill of exchange is drawn in one country

against goods which have been sent to another country. Therefore, in any country bills are plentiful when exports are large, and scarce when exports are small; the supply is conditioned on exports. And what creates the demand? The necessity of making foreign payments; and this necessity depends upon imports. Hence the relation between exports and imports gives the relation between the supply and demand of bills of exchange, and is the first condition determining their value. When imports are heavy in proportion to exports, the demand is large and the supply small—exchange is high; and *vice versa*.

The fundamental law well understood, we may enter into particulars. A foreign debt is a gold debt and must be settled on a gold basis. An American sends over American "dollars" to pay a debt of English "pounds." The *par* of exchange is obviously the ratio of the gold values of the moneys of the countries concerned. An English sovereign—the coin equivalent to the "pound"—contains 123.27447 grains of gold, 11-12 fine:—of pure gold, therefore, 113.0016 grains. A United States dollar contains 25.8 grains, $\frac{9}{10}$ fine, or 23.22 grains pure. The number of times 23.22 will "go into" 113.0016 will, of course, give us the number of dollars in a sovereign.

Performing the division, we find that a sovereign is equivalent to 4.866 dollars. So, then, we say that $\$4.86\frac{6}{10}$ is the "par of exchange" sterling. Unfortunately for the general understanding of this matter, the gold dollar of the United States was reduced in 1834 and again in 1837—the total reduction being from 24.75 grains, pure, to the present standard. On the basis of 24.75 grains, "par" was figured at $\$4.44\frac{4}{10}$, and this still remains by custom the nominal par, while the real par, $\$4.86\frac{6}{10}$ gives a nominal premium of $9\frac{1}{2}$ per cent. This, however, need not confuse our explanation. The par is the ratio of pure gold in the coins. Now evidently, if gold could be sent from country to country with absolutely no expense, exchange would remain always at par. The bill of exchange would be ruled out; it could effect no economy. But the transportation of gold is only accomplished at a certain cost, for carriage, insurance, etc. Hence the merchant having a foreign debt to settle will be willing to pay a premium for a bill of exchange, provided that the premium does not exceed the cost of sending gold. And here is the key to all the mystery there is in exchange rates. *The cost of transmitting bullion is the limit to the rise of exchange over par.*

"But," some one objects, "exchange is always

chosen by merchants as the method of making foreign payments. No merchant calculates the cost of sending gold, nor thinks of doing such a thing." Very true; but bankers and brokers do it for him. A merchant who wishes to make a foreign payment does not chase around to find another merchant with foreign credit. He goes to a broker and buys "exchange" there, where the other merchant is accustomed to bring his bills for sale. The cotton merchant, we saw, did not wait for his English debtor to send over a bill of exchange. He drew a bill himself against the English merchant, and sold this bill to the broker, and the broker sent it to England, where the gold was collected by his correspondent. Now this broker has a credit with his correspondent in England for this sum of gold. Thus he can sell exchange to that amount to whomsoever wishes to buy. He does not sell the bills sold to him. He draws his own bills against his foreign stock of gold. Now if that stock becomes exhausted, that is, if bills to replenish that stock cannot be bought by the broker, exchange will rise, until it becomes profitable for the broker to export gold, and thus be able to sell bills to his customers. So the law remains unbroken. The expense of exporting gold is the limit to the rise of exchange—one item of such expense

of course being the broker's profit. *Exchange may rise just enough to start the outflow of specie.* It will rise no higher, because if one broker can afford to sell at a small advance on the cost of transmitting gold, so can another. Competition will regulate the rates here as elsewhere.

Now turning the matter over, let us put the question, How low can exchange fall? Regarding a merchant's bill of exchange as a commodity of trade, the answer is easy to find. Bills of exchange are offered for sale. The greater the quantity in comparison to the demand, the lower their value. But they are simply so many claims for gold payable (say) in England. Hence should they fall below par to such a degree that the discount becomes greater than the cost of transmitting gold, then it will become profitable to send gold from England to buy them up. Thus *exchange may fall just low enough to cause an influx of specie*, but no lower, because the import of specie will keep constant pace with any tendency that way.

CHAPTER XXIV.

BANKING.

IT is not proposed here to enter into any elaborate discussion of the subtle subject of banking; all that will be necessary for the end in view is an outline of the banking principle.

The ordinary conception of a bank is crude in the extreme. When Mr. Peter Cooper, in his lamentable advocacy of the "currency reform," denounces the idea of returning to specie as a ruinous plan to "substitute for this currency [greenbacks] the old fashioned system of banking on credit," he may make one's head swim in the endeavor to follow his course of reasoning, yet he does not far misrepresent the current notions. A bank is regarded as a sort of store-house for money, whose managers contrive to turn a handsome profit by availing themselves of the circumstance that those who deposit this money for safe-keeping are not likely to call for it all at once, but will probably leave a margin always, which the

banker may do business on, loaning, shaving notes and what not. A bank therefore might be compared to an establishment for the storage of furniture, where the enterprising proprietor ran a snug little private business by hiring out chairs for parties and pianos for concerts.

While there is a trace of the reality in these vague notions, it is almost hidden by the abounding falsities. A bank does receive and does lend, but it does not receive money nor lend money except in a very small proportion. And, further, this lending, so far from being a little side arrangement for the banker's benefit which the depositors acquiesce in, is the chief purpose of the bank's existence, the thing which makes it the great engine of trade. We say that a bank does not receive money. What then does it receive? Checks, promissory notes, bills, various kinds of credit paper. It receives, that is, evidences of debt, titles to money (nominally), claims upon other banks, upon merchants, upon sundry debtors. Of a sum of £19,000,000 paid into his banking firm in London, Sir John Lubbock found that there was of coin only one half of one per cent, and of coin and bank-notes together only three per cent. Ninety-seven per cent was composed of checks and bills. But, it may be asked, does not the bank collect these

checks and these bills when they fall due? Certainly, but it receives its pay in other checks and bills, and meantime its vast business of lending, aggregating to many times the amount of actual property under its control, is going on without hindrance.

There need be no mystery about this. A bank receives checks, notes and bills from its customers. These are the titles for debts which it must collect. But how is the collection accomplished? If the bank simply received the money due on this paper and passed it over to the several creditors, it would not be a "bank" at all. It would be nothing more than a collector. It does not care to receive money for the entire amount of the paper committed to it. It has learned from experience that only a little will be drawn by its depositors at any one time. It may therefore, with safety, grant to those who need, the privilege of receiving the money which it would otherwise get, permitting them to use it until the depositors will probably call for it. It does this. Receiving for collection from A a check for $5,000, it authorizes B, C, D and E to draw checks against itself for $1,000 each, they standing ready to refund before A will want to draw. Theoretically it collects $5,000 and pays out $4,000, having a balance left of $1,000. Practically, these sums of money do not

pass at all. Suppose that A's $5,000 check is a check upon the bank itself, received by A from some other depositor in the same bank. Then the bank simply transfers the credit of $5,000 from that other depositor to A. And suppose also that the checks for $1,000 each, which B, C, D and E draw, are drawn in favor of other depositors of the same bank, then, (these depositors not wishing to drag about cash in their pocket) the checks are simply deposited in the bank for collection as in the case of A's check, with the result of transferring credit on the bank books from B, C, D and E, to W, X, Y, and Z. Very good thus far. Not a penny in cash has come in or gone out of the bank. Nothing has happened but a transfer of claims upon the resources of the bank.

But suppose the parties concerned do not do business at the same banks but use a half dozen different banks. Still the case is not essentially altered. The requirement now is that credits shall be transferred, not from one place to another in the books of the same bank, but from the books of one bank to the books of another. It is true that if but one transaction be performed, cash must pass. In order to transfer a credit of $5,000 from the People's Bank to the Bank of the Commonwealth, it is necessary for the People's Bank to pay the Bank of the

Commonwealth an actual sum of $5,000—provided this is the only transaction between these banks. But suppose that while A deposits in the People's Bank a check for $5,000 drawn on the Bank of the Commonwealth, Y deposits in the Bank of the Commonwealth a check for $5,000 drawn on the People's Bank. Then no money need be sent one way or the other. And this is just the state of things. In the complex operations of business, the various banks permit checks to be drawn against themselves and receive checks drawn against other banks. To run about collecting and paying cash would be an absurd proceeding. They keep accounts with one another, and cash only passes hither and thither in small sums to settle trifling balances from day to day. The system by which the banks thus adjust their reckoning among themselves is that centre of popular curiosity and thing of wondrous mystery, the Clearing House system. The checks which a bank receives for collection it sends to the Clearing House and there is credited for them; the checks sent by other banks against itself appear as debts. The small difference between the two is wiped out by receipt or payment of cash.

Now let us return to that original $5,000 check. A deposits it and is credited on the bank books

But the bank knows that he will not draw it all out very soon—suppose it were certain that he would not call for more than $1,000 for three months. The bank lends the rest, $4,000, to B, C, D and E, say at thirty days. At the end of this time, B, C, D and E pay; but A does not want his $4,000 yet, and the bank lends again to F, G, and H—and so on. Clearly, by the operation of banking, this $4,000, which otherwise would have remained idle for three months, is kept continually at work producing.

It is scarcely necessary to observe that the bank does not know as a rule how long any particular depositor will leave his claim undrawn; experience shows a general average per centage of deposits which a bank may safely loan, and it is the banker's business to so study the course of production, consumption and general trade as to be able to forecast the probabilities. And here a remark. It is very true that bankers do not study as deeply in this latter direction as they might. They are prone to content themselves with a mere acquaintance with the general run of things in the past, devoting most of their energies and faculties of observation to the solution of the immediate and more obtrusive questions;—is this man who wants to borrow honest? is he

engaged in legitimate trade? does he generally succeed? are his intentions good? To put the matter in brief, an ideal banker would have foreseen the crash of '73, because he would have marked how the capital of the country which it needed for production—and not the savings for which it had no present use—was being flung away in bad trading, or buried where it could not produce again for years. He would have known, moreover, that the vast destruction of the war would make a period of slow recuperation, "hard times," inevitable; that to put it off was only to make it worse when it did come. But the average banker foresaw nothing. Everybody seemed to be doing a splendid business, prices were high, exchanges rapid, borrowing brisk and returns speedy. And so the destruction of capital went on until no more could be had for the purpose. Then the question arose, where is the capital which we loaned? And the honest men, and the well-intentioned men, and the long successful men pointed to the railroads of the Western wilds! This is too large a field for more than a dash. Yet a dash will show the absurdity of charging the results of bad banking upon the trifle of gold used in the business. Bad banking may prevail with any kind of money, the only distinction being that a poor money, or a

false money like depreciated and fluctuating paper, tends to induce the evil and greatly to exaggerate it.

To return, we are now prepared to see the purpose of a bank. It receives claims for collection, and uses the proceeds to make loans. This is its constant work. Very little money, proportionately, crosses its counters. It takes in evidences of debt, and makes them the basis of credit. Yet, let us analyze a little further. How did A come by his check for $5,000? Let us answer that he is a farmer and received it for wheat. This check transfers to A a purchasing power; he has bought this purchasing power with his wheat. But he does not care to use it at once, perhaps not for six months. The banker, understanding this, makes loans of portions of this purchasing power to B, an importer of cloth; C, a dealer in cotton; D, a manufacturer of shoes, and others. B buys cloth and sells it again, C buys cotton and sells, D carries on his manufacturing and receives his return—all before A has need of the purchasing power of his wheat. Now, what is it that has bought the cloth and cotton and run the wheels of the manufactory? Why, the wheat. And so again, we reach the bottom principle, that trade is an exchange of goods. In simpler exchanges we found

money acting as the medium of exchange. Here we find that the bank performs the function of a medium —money standing behind all the operations, discharging as ever its office as a measure of value.

CHAPTER XXV.

WHAT IS A SPECIE BASIS?

IF we are to make a deliberate effort to get back to a "specie basis," it is a matter of some importance to know what a "specie basis" is. The phrase, in some respects, is an unfortunate one, and out of a cloud of misconceptions of its meaning floods of nonsense and crudity come pouring continually. Even men of hard money convictions (more accurately hard money traditions) are frequently carried off their feet, and whirled out of their common sense and their very knowledge of facts.

It is in the nature of a stock argument with a certain class of reasoners to compare a system of exchange which is "based" on gold to a pyramid standing on its apex—the well-known tendency of pyramids placed in such unnatural posture being supposed to figure, with exceeding force and appropriateness, the unreliable character of specie-based currency and banking. And a certain popular writer

has further elucidated the matter by a more ingenious figure still—"a balloon hanging up and hitched to its basket and ballast;" whereby trade, "hitched" to gold, is vividly presented as rolling about with every breath of wind, or going "kiting" at the snapping of a guy.

The principles presented in these pages have been studied to little purpose, if the reader does not readily see that such illustrations illustrate nothing but the blunders of the persons inventing them. As we observed in Chapter XII, the proposition to require the National Banks, as a preparation for resumption, to accumulate a store of gold equal to one-third of their note circulation, has been received with a shout of indignation. The "pyramid," to take a mild view, would be something like $300,000,000, the "apex" $100,000,000 or so. But then some sages add the bank deposits to the outstanding circulation; whence, on the apex of $100,000,000 looms up a vast geometric solid of perhaps $900,000,000. Or again some still more profound expert (Gen. Ewing for example) strikes the ratio between the proposed coin reserve and the total annual exchanges of the country, when the pyramidal body swells to the frightful size of $30,000,000,000! And finally a particularly tremendous fellow with statistics tries his

hand, and brings to light such facts as that transactions aggregating to the enormous amount of $100,000,000 a day are carried through at the London Clearing-House without the use of a single coin—when indeed a full-blown balloon bursts on the staggering sight, with not even an ounce of "ballast" to stay its flight to the clouds!

But let us soberly and rationally ask the question, what do we mean by "basis?" Do bank-notes depend for their goodness upon the mere gold reserve? By no means. Property equal to their full value is held by the bank for their redemption. With our National Banks, it is the government bonds, lodged at Washington, which constitute the real foundation. The twenty-five or fifteen per cent "reserve" is only the supply of ready cash for so many notes and other cash claims as may be presented to-day. And what is the "basis" of a mercantile promissory paper? Not merely the quantity of coin which the merchant carries in his breeches pocket; but the goods which he holds in his warehouse. What is the basis of the common book credits? We have not thought necessary to dwell upon these, yet they accomplish the exchange of millions of property—are a medium to enormous amounts. What are they bottomed on? Not the

trifling sums of money which the trading merchants have in their tills, but the merchandise which is exchanged by their agency. What is the basis of a bill of exchange? The wheat, the iron, or the cloth, whose transfer in ownership the bill is effecting. What is the basis of banking? Not the pin's point of metal whose proportions are too insignificant to reckon; but the valuable possessions of the note-drawers, the cotton, leather, tobacco, tea, silks, houses, lands, manufacturing establishments, canals, railroads—of the parties who borrow.

Then what do we mean by a "specie basis?" We mean really the basis of a specie *standard* and a specie *measure of value.* Trade rests on a "specie basis," when specie is the basis of reckoning and settlement. All these other instrumentalities simply act as mediums of exchange. If the pyramidal theory leads to any conclusion, it is that promissory notes, bills of exchange, bonds—all these tools, must be abolished and destroyed. To take away the apex of metal, and substitute an apex of softer stuff will not stiffen the "toppling superstructure" (to use the picturesque phrase of Senator Jones) by a grain. We are on a "specie basis" when gold stands behind and beneath all trade, measuring all values that they may be equitably exchanged, and furnish-

ing a standard of value as nearly as possible fixed and unfluctuating.* In one sense, indeed, it is impossible to escape a specie basis. Values at home are in a very large degree regulated by values abroad, as every farmer and every producer who comes in contact with the foreign market ought keenly to feel. We cannot really escape the specie standard, but we can drive out our gold, so that the measures of value may come to us at second hand and be very much falsified in the transit. To get down to a "specie basis" is to get down close to it. And the reason we ought to get down to it without delay, is because it is the best basis which men have been able to discover—because gold furnishes the best standard of value and the best measure of value among all the valuable things of which such standard and measure might be made.

The specie payment question, then, is one of transcendent importance. It is not the comparative trifle, Shall the United States redeem the four

* There is of course a question of reserve which is very important. In the vast operations of credit, as we have seen, although a dollar's worth of value stands behind each dollar of credit (rare exceptions being made for dishonesty and imprudence), a certain amount of gold is necessary in specie times, to meet small balances, here and there, as they arise. If this amount is not retained in reserve, or not properly managed, trouble ensues. But obviously these difficulties would be present in any system of exchange.

hundred millions of outstanding legal tenders and fractional paper? The real question is, Shall the millions and billions worth of property exchanged yearly within our borders and between us and foreign nations be exchanged at true or at false ratios of value? That is the question; and whether the people of the United States see it or not, their material interests are more immediately and more deeply involved in it than in any other question or "issue" which scheming politicians can possibly cook up.

CHAPTER XXVI.

THE "BALANCE OF TRADE."

ALL trade when sifted to the bottom, is an exchange of goods. Even when money, gold, is ruled out of the list of commodities, and considered merely as a sort of middle ground upon which the values to be traded are deposited in course of transit from owner to owner, this proposition holds true. The obscuration of this fact seeming to be the fog out of which come the common errors respecting the so-called "Balance of Trade," let us make it plain.

Two merchants have frequent and extensive dealings with each other. They do not send back and forward the cash for each purchase, but simply enter sales and purchases in a book, and at convenient intervals strike a balance which they settle with money. Observe here, that the real trade is evidently and directly an exchange of goods. The amount of money used bears no particular proportion to the magnitude or multiplicity of the transactions, al-

though it is certainly small in comparison. But suppose it chances to be, on a certain settling day, a considerable sum: Merchant A finds that he has bought of Merchant B, over what he has sold to him, goods to the amount of $10,000. The "balance of trade," so to speak, is against him. He has to clear off that balance with money. Where does he go for this money? Does he sweep together the sums in his pocket and till with which he had intended to pay his clerk-hire, his rent, his gas bills? Or has he an immense store of gold in the cellar out of which he is accustomed to pay his balances? Neither, surely. He provides for the $10,000 balance, or has provided in advance for it, by sales of goods to other merchants than B, for which he receives cash at the time of need. That is to say he in reality settles his "balance of trade" with B by turning over goods to C. But then taking B and C together, there is no "balance of trade" against A at all. He has sold precisely as much as he bought; only, for the temporary adjustment of his reckoning, he needed to make use of the tool of trade—money.

And when the circle is completed, we shall find always that he has traded goods for goods. He may have traded well or ill; may come out with wealth or poverty, but his "balance of trade" will be evened

off just the same. His balances, big or little, will have no influence upon his prosperity. This last statement will puzzle some—at least if they follow the logic of a host of superficial reasoners on this subject. Let us make it still clearer. Suppose a merchant starts trade with a lot of silks worth $10,000. Say he sells these silks for $10,000, and buys muslin with the proceeds. He sells the muslin for $8,000 and buys calico with the proceeds. He sells the calico for $6,000, and with that money purchases a country cottage and retires from business. Evidently his trading sums up to this, that he has exchanged his silks, worth $10,000, for a cottage worth $6,000. He has lost $4,000 value. But how stands his "Balance of Trade?"

SALES.		PURCHASES.	
Silk	$10,000	Muslin	$10,000
Muslin	8,000	Calico	8,000
Calico	6,000	Cottage	6,000
	$24,000		$24,000

These principles apply in exactly the same way to international trade. How can it be otherwise? It is not necessary to trace the chain of exchange through all its myriad links to discover the truth. What has one country to offer another but its products? Its money? Certainly it may trade off its stock

of specie. This is just what the United States did. But how long will this last? How long can a merchant trade by giving out his money—by buying and not selling? And when the country's stock of specie is gone, will its trading cease? The average stock of specie now in the United States is not enough to pay for our imports for four months. Even if we fall into the fallacy of reckoning in, as money, the gold product of the mines,—which in this connection should clearly be classed with the cotton or wheat crop—even then we could run but a day or two longer. Our imports of late years average over $500,000,000. Our gold product is some $36,000,000. The country must be trading as it has always traded (except in the brief period when it *sold* its money) with its goods. It pays for its imports by its exports, the respective values of these being measured by gold, and the transfers of values effected chiefly by bills of exchange. But because trading is not even at particular times, it is found necessary to use a little gold to settle balances, the same gold running back and forth, now to this side of the water, now to that, as the temporary need arises.

Reviewing these points, we find that the Balance of Trade, so-called, is due only to a temporary disturbance of the relation of imports and exports—a

relation which must ultimately be one of equality or equilibrium. The popular notion, that if a nation were very well-behaved and economical it might have the "balance" always in its favor, is an absurd blunder. It would not want it always "in its favor" if it could have it so. For that would merely signify that it was continually receiving gold, for which it could have no possible use, and not receiving flax and tin, and wool and copper—materials to be used in creating new wealth. The terms "favorable" and "unfavorable," as commonly used, cover a very curious delusion. An excess of exports over imports makes the rates of exchange favorable to the person who wants to pay a foreign debt. Whether such excess is favorable to the exporters depends on whether they get profitable or losing prices; whether such excess is favorable to the country depends on whether the goods which ultimately return, or which have previously been received, as even payment, are or were really as valuable as the goods sent away, and whether they are or were goods to be used, or already used, wisely and in creating fresh wealth, or foolishly and in mere consumption. But the notion is a blunder all the way through. The real Balance of Trade cannot remain long on one side or the other, for the simple reason

that a country has to pay for what it buys, and must ultimately pay in goods.

But, it is objected, "This looks fine as a theory, but it does not accord with the facts. The statistics show that the Balance of Trade has been against the United States for twenty years, excepting in 1858, after the crisis of '57; in 1862, upon the opening of the war; and in 1874 on the heels of the crash of '73." Very good. And mark that these "favorable" balances were the sequels of disaster in every case. The "Balance of Trade" for the United States as shown by the usual statistics does not give a true trade balance at all. In other terms, the difference between exports and imports of merchandise does not show the difference of all the *values* exchanged, but only of the values of ordinary merchandise. In the first place, we produce gold which we export exactly as we export cotton or wheat. This gold should be added to the sum of exports, and very much of it is not so added. But the merchandise which returns from abroad for this metal is added to the imports, and thus the "Balance" is thrown out of its true measure. Yet this might pass. A still greater element of confusion is the fact of great investments of foreign capital. This capital is continually pouring in upon us in the pros-

perous, growing times—sent over, of course, by means of bills of exchange, in the form of materials and merchandise, and thus being reckoned on the side of imports. And this capital remains here; there is no return in merchandise; it is put at work in factories, railroads and what not, even the earnings, perhaps, staying within our borders as fresh loans. To strike a true Balance of Trade, the foreign capital here should be put on the side of export, as if paid back, and of course the American capital sent elsewhere put on the side of import. Were this done, the Balance of Trade would disappear, except so much as is settled by the hitherward and thitherward flow of a small quantity of gold for temporary exchange fluctuations. What is it that suddenly turns the "Balance" in times of disaster? Simply the failure of credit, and the hasty withdrawal of foreign capital. Observe that all those twenty years of "unfavorable balances" did not deprive the United States of its gold money. When was it that our gold disappeared? When the inconvertible paper was crowded into the trade channels. As we saw in Chapter XVI, gold had to go abroad then, because it was driven out by the inferior currency. Could a true Balance be struck for that period, we should, indeed, find it an "unfavorable" one.

But the true "unfavorable balance" was not the cause of the gold going out; the gold's going out was the cause of the unfavorable balance.

The phenomenon becomes exceedingly simple when we consent to look at gold as at any other commodity. The swelling of the volume of the currency necessitated a general rise in "prices;" in other terms, a general disturbance of values (ratios of exchange) in an upward movement. But gold is the least fluctuating of commodities, because its extreme portability gives it the power of responding readily to demand. It cannot rise far in any particular country, in relation to other values, because the tendency will be checked by imports from another country. Hence in a general rise, gold becomes the cheapest thing going; as in a general fall it would become the dearest. In the upward movement in this country, therefore, gold became the cheapest commodity, and thus the most profitable for export. On the other hand other goods were the most profitable for import. The commodity, gold, flowed abroad, and the other commodities returned to pay for it. Regarding gold as a commodity, of course there is never any "balance." But in the table of statistics, gold is ruled out. Hence those tables showed at this period of gold exportation a heavy excess of imports

of merchandise over exports of merchandise. But this excess, evidently, was not the *cause* of the exportation of gold, it was the *effect*. So, when the Balance, the true Balance of Trade—meaning the difference between export and import of value, after properly reckoning in the gold product as a commodity and the foreign loans as withdrawn—when this Balance so turns in our "favor" that we shall see gold circulating in common trade, it will turn as an *effect;* the change will not be the *cause*. This will be made still clearer in the chapter on Resumption.

One word more. It is noticed at this time, that the Balance of Trade is now turning in favor of the United States, and hence numerous journals are looking for an influx of gold and an easy return to specie payments. They will look in vain. The change signifies just what it did in '58. It is the natural consequence of the destruction of capital which culminated in the crash of '73. Foreign capitalists are withdrawing, and the excess of export means simply the outflow of their capital. No gold will return to pay for it. When prosperity returns, foreign capital will flow in again, and the "Balance of Trade" will once more be against the United States, as it should be.

This chapter was intended to be limited to essentials. In view

of certain criticisms, however, it seems wise to add one or two suggestions: The United States (under the operation of their "protective" navigation laws) pay to foreigners something like $130,000,000 annually for marine transportation. The equivalent, sent in merchandise, enters among *exports*, increasing the "balance in our favor" by just so much.

Strange as it may seem to Greenbackers and others who "don't want to trade with the world," it sometimes happens that an American vessel will carry from our shores a cargo worth, say $100,000, and, selling it abroad, bring back with the proceeds a cargo worth, say $150,000. This trader obviously makes $50,000—less expenses. But in the "Balance of Trade" sheet there is an *import* of $150,000 against an export of $100,000; and so it is obvious that the country has lost $50,000, and will have to pay the deficit in hard cash.

Again, a vessel will leave our shores with goods valued at $200,000, and sink in mid-ocean. The owner of the merchandise loses, of course, but the country—has it not gained? Here is an *export* of $200,000 with no import to offset it. Certainly this increases the "balance in our favor."

This line of illustration might be indefinitely extended. I reserve space to reply to an objection which continues to be urged with remarkable pertinacity. "These theories are very fine," it is said, "but for all that we have had an influx of gold as a consequence of the favorable balance of the last four years." The answer is a simple one: You are mistaken. The exports of gold have exceeded the imports during these four years by $33,195,113. The year 1880 will indeed show an excess of imports, but, unfortunately for the "practical" men, it will show also a heavy diminution in the "favorable balance." See Appendix.

One final remark. The country has gained greatly since 1876. The "balance" is turning steadily to the "unfavorable" side. Foreign capital is returning; the sales of American securities abroad are becoming heavy.

G. McA.

August, 1880.

CHAPTER XXVII.

THE SILVER SCHEME.

WE hold now in hand enough of the laws of money and money circulation to discuss with intelligent minuteness the vexed question of re-monetizing silver; and that such discussion is necessary, the threatening attitude of the national legislators, and the specious talk of such papers as the New York *Graphic*, the Cincinnati *Commercial*, the Chicago *Tribune*, and many other journals of more or less eminence and influence, most emphatically declares. For the issue which has been raised is not that which it is considered, or pretended, to be; and the hurrying of the country to a false conclusion, by an ignorant, deluded, or corrupted Congress, would be a calamity for which the disasters which followed on the heels of the civil war might be the only fit measure of comparison.

The guiding principles to a logical reasoning on the subject are these:

1. Gresham's Law: An inferior and a superior

currency will not circulate together. The inferior will drive out the superior.

2. The principle of the double standard.

3. The law by which movements of specie (either gold or silver) are regulated by the action and reaction upon each other of the supply of specie and the "prices" of goods.

4. The laws in obedience to which an inconvertible paper currency depends for its value first on the value of that in which it is to be ultimately redeemed, and secondly on the amount issued in relation to the need.

5. The laws generally which operate in and with a depreciated and fluctuating currency.

The reader will have no difficulty in tracing the working of these principles; they are all simply different phases of the single great law of trade, the law of supply and demand, as affecting value.

First let us run over a few pertinent facts in the history of American coinage. In 1792, the Federal Congress established a "unit of value," selecting "the value of a Spanish milled dollar as the same is now current" as such unit, and naming it a "dollar." To have set up any other value at this time as a unit would obviously have disturbed trade, since prices were adjusted to the Spanish coin. The American

dollar was not coined until 1794, when the silver dollar came from the mint, 416 grains of silver, 892.4 thousandths fine—371¼ grains pure silver. This was the standard unit, the legal "dollar." Now they *attempted* to set up the standard in gold also. We perceive that they had a difficult task. Exactly how much gold was equal to 416 grains of silver, 892.4 thousandths fine? Alexander Hamilton endeavored to give an approximate answer to the Federal Congress, and reported that the ratio was *about* one to fifteen. Accordingly a gold "dollar" was established containing one-fifteenth as much of pure gold as the silver "dollar" contained of pure silver. The gold "dollar" became thus 27 grains, 916 2-3 thousandths fine; 24¾ grains pure. But it turned out that Hamilton had placed silver a notch higher than its market value in relation to gold. In other terms, the silver "dollar" was not really worth as much as the gold "dollar." And what was the consequence? Simply that people paid their debts in what came cheapest—silver—while they found it profitable to melt up gold eagles and half-eagles, (one dollar gold pieces were not coined) or export them for foreign goods. Gold disappeared from circulation. There was no double standard in point of fact at all. Silver was the only money, and all values were meas-

ured by it. The coinage remained in this relation until 1834, when an attempt was made to remedy the difficulty. An act was passed changing the mint ratio to one to sixteen. A "dollar" in gold was now only 23$\frac{2}{10}$ grains pure, instead of 24$\frac{3}{4}$ grains. But now gold was overrated. The gold "dollar" was inferior in the market value of its metal to the silver "dollar." It paid, therefore, to discharge debts in gold exclusively, and to melt and export silver. Hence silver was driven out; and it has remained out ever since. Evidently silver could not return as money unless the mint ratio was altered, or the relative metallic values of gold and silver became changed, so that the silver "dollar" should become worth less than the gold "dollar." The mint ratio was not altered except in a very slight degree. In 1837 changes were made in the alloy of the coins, so that the gold eagle was increased in metallic value by $\frac{1}{10}$ of a grain of pure gold, its weight remaining as before, 25 8 grains—giving the present gold dollar, 25.8 grains, $\frac{9}{10}$ fine; while the silver dollar retained its old amount of pure silver, 371$\frac{1}{4}$ grains, but was reduced in weight,—becoming the coin of 412$\frac{1}{2}$ grains, $\frac{9}{10}$ fine, which is now celebrated as the "Dollar of Our Fathers," and the "Money of the Constitution." The return of the silver dollar thus depended on a change

in the market values of the metals. Up to 1873 this change had not taken place, and in 1873 was passed the act, now denounced by certain theorists as a stupendous enormity, which deprived silver of its quality of legal tender (except for small change, up to five dollars,) stopped the coinage of the silver "dollar," and left the gold "dollar" to be the sole unit of value.

We thus have all the historical facts. We need not be befooled by any dogmatic assertions respecting them. We see that the silver "dollar" was demonetized in reality by the change of the coinage ratio in 1834, in connection with the inexorable laws of trade. And we may add, that from 1853, when the fractional currency trouble was settled, (Chapter XXII) the coinage of the silver dollar almost entirely ceased. The silver dollar was not in use, all trade was adjusted to the gold standard. So far, the demonetizing act of 1873 simply recognized the existing facts. Its further effect was to relieve the country from the danger of those recurring disturbances which are inherent in the nature of a double standard.

Nor was the precaution taken any too soon. The very fact which now furnishes the silver theorists with the reason for their wrath, justifies the

demonetizing act which they denounce. Since 1873 silver has fallen below gold about twenty per cent. We cannot stop here to argue this matter of fact. An ounce of gold will purchase, taking an average of staple commodities, very nearly the same quantity of goods to-day that it would in 1873. An ounce of silver will not buy as much by twenty per cent. This is nothing less than a *fact*. Those who insist on theorizing about it as if it might be determined by an evolution of the inward consciousness, must be left to their own visions. In India, where silver is the exclusive currency, the sudden fall has been attended with the ruin of commercial houses, paralysis of the import trade, and wide and bitter distress among all classes. The "rupee," nominally worth 24 pence, and legal tender for that value, has dropped in real value to about 18 pence. Moreover, your thorough-going silver man will assert the same thing with the very breath in which he denies it. "Silver is plentiful," "silver is cheap"—these words mean exactly that it only costs eighty cents to produce the silver of the old dollar.

Now, in the first place, suppose we had been on a specie basis and silver had not been demonetized. All the gold money would have been driven out, and business would have had to adjust itself as best

it could to the enormously reduced measure. And what does such an adjustment mean? Chaos—a revolution in trade—a rapid but uneven rise in prices—which throws business skill and prudence and honesty to the winds, makes gambling and trickery the highway to wealth, sweeps the hard savings of toil into the coffers of capitalists, plunges the whole people into a madness of riotous living, and taxes labor at last to pay the cost of the debauch. How often must the lesson be taught? It is written on many a black page in the history of the nations, and yet we do not learn it: no, not even when we read it over and over in the records of our own land —not even when it is scored upon our very backs by the burning lash of experience!

But the conditions here supposed were not given. Excepting the demonetizing of silver, they were far worse. This point will presently offer itself for consideration, but it is enough now if we see, that supposing specie conditions, the act of 1873 was an act of salvation. We pass to the consideration of the present issue.

Cunningly or ignorantly, the question is usually stated as if it were a mere question of a return to the double standard. "Business is prostrate," say the champions of the Dollar of our Fathers, "because

money is scarce, and money is scarce because it is made solely of gold, and gold is exceedingly hard to get. But silver is plentiful and easy to procure. Return to the double standard, make money once more of silver, and we can readily resume specie payments, clear off the national debt and set the wheels of trade humming with prosperity and joy."

But what is a double standard? Theoretically it is a compensatory standard, where the values of the two units are brought closely to an equality. It would be an absurdity to set up a double standard for a foot, where a measure made of a brass rod would show twelve inches, and a measure made of a steel rod would show eight inches. But it might be rational to use together a brass rod and a steel rod, as in the compensatory pendulum, their lengths being as nearly as possible the same, and the tendency of each to expansion and contraction being expected to resist and offset the tendency of the other. To set up a double monetary standard, it is necessary to fix the units as nearly as possible at the same value. If the United States wishes to return to the double standard of gold and silver, it must solve the problem afresh, How much silver is equal in value to 25.8 grains of gold, $\frac{9}{10}$ fine? And as we have seen, the answer is, About 515 grains. To return honestly to the

double standard—to return at all—the silver "dollar" must be coined, not of 412½ grains, but of 515 grains

But how would this change the present financial situation? Leaving out the consideration of inevitable fluctuations in silver which would destroy the double standard almost before it was established, it is evident that it would not better matters by a jot. A silver dollar worth as much as a gold dollar would be superior to the greenback in exactly the same proportion, and the dollars of both metals would flow away till the present level of specie was reached again. Money would be as "scarce" as ever, and statesmen would make the discovery that, even adding the silver to the gold, "there is not enough [precious metal] in the world to effect the world's exchanges." An honest return to the double standard would leave us precisely where we stand now; a depreciated currency holding the channels against all assaults of superior money. And it looks as if the advocates of the silver scheme know it right well, for what they clamor for is not an honest silver dollar, but for the dollar discarded forty years ago, for the dollar which no man thought of using until the discovery was made that it might be converted by the trick of an act of Congress into an instrument of legal fraud.

The consequences which would follow the establishment of eighty cents' worth of silver as the legal dollar can only be forecast in general terms. The situation is not the simple one it would be under a specie basis. We know that the results would be disastrous in the extreme, but the whole extent of disaster or the precise working of the conflicting influences, no human thought can foretell. We shall perhaps gain the clearest understanding of the matter by taking separate account of the main causes which will be set at work confusedly together. Let it be held clearly in mind that a change in the legal measure of value signifies a change in the prices of goods. "Price" only means the ratio of exchange between goods and money. And no such change, accomplished suddenly by causes entirely foreign to industry, to cost of production, can possibly take place without so falsifying the ratio of exchange as to rob the many and enrich the few. The failure to cling to this simple fact is the great reason for the popular indifference respecting the money question; "a dollar is a dollar" is the general easy phrase, the real truth being utterly overlooked, that one "dollar" may be beef-steak four times a week and another "dollar" nothing better than codfish on Friday.

Some of the causes and effects which are involved

in the carrying out of the silver scheme may be thus enumerated:—we use the word "cent" to signify the hundredth part of a gold dollar. It is necessary to have some measure:—

1. Trade is now adjusted, though unevenly adjusted, to the standard of the greenback. Prices, that is, are figured on a basis of about ninety cents on the dollar. The standard is to be lowered to eighty cents. Prices must be tossed up in proportion.

2. The eighty cent silver dollar becoming a standard unit on a legal par with gold, the gold dollar will be driven out entirely. The silver dollar will be the coin in which the greenback is to be paid. But if the greenback is ultimately to be redeemed at eighty cents, its value will be figured on that eighty cents. That is, it is now depreciated, because of excessive issue, ten per cent. With the silver dollar for the base, the ten per cent becomes ten per cent of eighty cents. The greenback, from this cause, will fall to seventy-two cents. Prices must be tossed up to this degree.

3. The greenback falling to seventy-two cents, it will become an inferior currency, and the eighty cent silver dollar will be driven out of circulation, except for custom-house duties and interest on the national debt. Money will be "scarce."

4. But the paper notes now in circulation include about $370,000,000 greenbacks, and $290,000,000 National Bank notes—say, together, $650,000,000. It is not proposed to withdraw the greenbacks nor take away their legal tender quality. The National Bank notes will remain as now redeemable in the greenback, and possessing the same value in trade. This $650,000,000 now suffices for the business of the country, each note standing for ninety cents. But each note is to be reduced to seventy-two cents. The $650,000,000 will not be enough, therefore. Supposing no more notes to be issued the effect will practically be contraction. The value of paper will, from this counter-influence, rise toward ninety cents. Prices will fall. The industries of the country will be "strangled," we shall be delivered captive to the "money power."

5. But on a movement of rising prices, this practical contraction will not be submitted to. The distressed traders and manufacturers will cry for "more money," and if Congress does not give it to them, the National Banks will. The fact that the National Banks contributed to inflation and may so contribute again is continually lost sight of. There is no practical restriction now to their issues except the public desire. The $354,000,000 limit has been

removed, even the requirement of reserves has been amended so that a five per cent deposit at Washington is all that is necessary. A National Bank note is redeemable on demand in "lawful money;" but it is to the interest of nobody in particular to ask a greenback for a note just as good. How far the National Banks might inflate under another fictitious rise of prices cannot be foreseen. But it is not likely that in the event of the establishment of the eighty-cent dollar, the Congressmen who perpetrated the folly, or the iniquity, will be wise enough, or honest enough, to resist a demand for fresh issues of paper. Thus we reach a probability (amply illustrated in history) that a new paper inflation will be started whose end is beyond thought. The common conclusion of such a course is repudiation. And meantime, prices will be violently running up and down the scale in response to the movements of inflation and of the fluctuating silver base, property will be changing owners without returns of value, the suddenly rich will waste the substance of the country, we shall have a new period of prodigality, closed by a black day of settlement, and followed by a time of prostration.

6. The declaration that eighty cents worth of silver is to be henceforth the legal United States dollar

will break down the national credit. The bonds held abroad will be rushed into the American market in a flood, not only because of the dishonesty of the act, but because such dishonesty makes threat of further dishonesty and of ultimate repudiation.

And here we may pause. We shall only exhaust our patience with further study. The proposition of the Bland silver bill—by which the owners of silver were not to be held from the spoil while the mint slowly coined their bullion, but were to be suffered to rush into the market at once with bullion certificates, to swindle the people with their eighty cent "dollars" before prices had a chance to settle—this and other matters might be discussed with profit. But is it not enough? Even the mere glance at the salient features declares the silver scheme to be the most illusory or the most audacious that ever was concocted for the enrichment of a ring and the ruin of the mass. It may be that the bonanza statesmen are not fully aware of the import of their proposition. But most of what is known in plain Saxon as robbery is the fruit of ignorance and an impetuous desire for gain.

CHAPTER XXVIII.

RESUMPTION.

MUCH that is ably written and spoken on the resumption question fails almost completely of effect, for the reason that it is vague where it should be definite, and rhetorically general where it should be prosaically particular. There is a deal of truth in the common remark that "Every body says we ought to resume, but nobody tells us how to do it." Excellent reason there may be for a certain caution in proposing plans; for the problem is one of many parts, and its successful working out will proceed on numerous and changeful conditions. But aside from this, the matter is enveloped in the general haze which surrounds the whole subject of money, and it has come to pass that multitudes think that nobody knows anything about it, that any measure regarding it is as likely to prove harmful as helpful, and that the safest thing to do is to do nothing, but simply wait till the snarl unravels of itself. And this is a misfortune of weighty con-

sequence. Its fruit has already been seen in this opening presidential campaign of 1876, in the ease with which political jugglers, in the space of a few weeks, diverted popular attention from what everybody knew and felt were the live issues, and reinstituted the everlasting sham-fight over the "party principles" of honesty, purity and truth, respecting which men never had the shadow of a difference of opinion. "We must reform." Certainly; but what? and how? Surely the depreciated currency, which has been one of the most potent instruments in overwhelming us with material catastrophe; which has, by its evil confounding of *legal* right with *moral* right, been distilling most subtle poison into public and private morals; which sits now like a nightmare upon the groaning chest of industry—surely if we are to reform, here is a fit place to begin. But those who should have been the people's leaders did not, dared not, or could not say, squarely and definitely, this must be done, or that must be done; and while they parleyed the demagogues and tne schemers industriously and plausibly preached what ought to be a most palpable lie—that men wait till they are prosperous before they pay their debts, and that just so a nation must wait until wealth flows in upon it before it can resume. Honest men pay their debts

when they fall due. At least they spare no cost and stop at no sacrifice, to meet their obligations; because they count this the only honorable dealing, and because, also, they know that this uprightness is the only road to a prosperity that will endure. A nation may for a time, because of its impersonal character, violate the law of right without being made sensible of the penalty; but the punishment visits it all the same, its effects the more corroding from the secrecy of its operation, and finally, perhaps, declares itself in a national day of judgment.

But the purpose of these papers admits of no more than allusion to the moral aspects of the subject. It must be assumed that we are all seeking the right. And just now our object is to obtain a clear and definite understanding of the things submitted to our moral sense. A comprehension of the things already discussed in these pages gives us the key to the situation. We know that the existence of the legal tender notes, bills past due from the moment the United States was able to redeem them, is a wrong. We know that if the debt covered by them cannot be paid outright and at once, the holders should receive interest on the loan; and so we know that the cutting off of the original privilege of exchanging

these evidences of a forced loan for interest-bearing bonds was a wrong. Above all we know that the presence of a depreciated currency in the channels of trade a day longer than it can be safely removed is a national crime. A false measure of value is worse than any other false measure, an incalculably greater instrument for defrauding the ignorant and the defenseless than false pounds or false yards or false bushels. It makes trade in itself a cheat, and not even the strictest honesty can prevent injustice. The one thing certain about its action is that it places the heaviest burdens on the weakest shoulders. We know all these things, we feel them all keenly—but nevertheless, what shall we do?

Let us see whether we cannot find out something definite about resumption and the cost of it. We may be sure that it *will* cost. And the company of newspaper writers and stump speakers who whine over this feature of what they call "forced resumption" (as if there could be some other kind of resumption) ought to be locked up in a sort of moral nursery at once. The only way to pay debts is to pay them, and paying is not so easy as not paying. The only way to get out of a ditch is to climb out, and it takes more nerve to climb than to sink deeper and deeper in the mire.

The question of resumption is usually stated as if it were merely, Can the United States begin the redemption of its legal tenders in 1879? But that is not the question at all. There are two ways to such redemption. It would be equitable to put the holders of the notes, if they were thus satisfied, in position to receive interest on their loan: that is, to give an interest-bearing bond for the legal tender. All the legal tenders might be thus funded according to the original intent, before the day for coin payment arrived. And then the question would become: Can the United States pay interest on a new debt of $370,000,000. Everybody knows that it can; nor does the lachrymose statement that it will be expensive alter the fact. But again, let the problem be the accumulation of a store of gold and suppose the store necessary to be $370,000,000—which is not the fact. Now we strike a mass of notional rubbish indeed. If we should ask whether the United States can in two years buy up that value of ordinary merchandise the surprised answer would be, certainly if it will pay the price. But, gold:—Impossible! England uses —a certain digit with so many naughts attached; Germany requires—another digit, with so many naughts attached; the entire Occident employs, "in round numbers"—a very fat digit with a regiment

of naughts in train; the annual production is this, and the annual draft that. And so what is there left for the poor United States? And having triumphantly proven that there is none to be had, the learned statistician goes on to show that foreigners will sell us all we want, by picturing the frightful disasters which will whelm the "money centres of Europe" when the wretched proprietors of those centres have bartered away the basis of their "toppling superstructures of credit."

It is amazing that such stuff can be uttered in an intelligent community. The Occident uses all the gold it has. Of course it does. What else would it do with it? Throw it away? bury it? burn it up? Our statistician's figures might be doubled and trebled, and the Occident would employ all its gold still. Gold would be cheaper in the Occident than now: people would have more jewelry, more dental work, more gold-lettered sign boards, more "money." But the money would not have the purchasing power it has now—any more than the jewelry or the gold lettering. "Prices" would be higher; it would take a smaller amount of iron, or cotton, or wheat to buy any given weight of gold. And the United States might wait till the crack of doom—it would never be able to get any gold from abroad nor to hold its own,

until it was ready to pay as much for it as was paid elsewhere. If the United States wants to buy gold enough to make 370,000,000 gold "dollars," it must simply buy it. The "money centres in Europe" are amply able to take care of themselves. They need not give us a single stone from the foundation of their "toppling superstructures." The gold might reach us by way of England or Germany, or Spain, but it would be drawn from that part of the world where it was least valuable. The consequence of the withdrawal would be a rise in the value of the remaining gold; that is, a fall in general prices. But the withdrawal being from the whole commercial world, the fall in prices would be so widely distributed as to cause no appreciable disturbance. Thus the question as to the purchase of a quantity of gold sufficient to make 370,000,000 dollar pieces, is the question simply, Can the United States pay the price, or secure payment to the sellers? But there is no question here, except that of the rate of interest we are willing to pay for a loan. It seems that our new $4\frac{1}{2}$ per cent bonds will go off readily enough. But if they did not, we might better pay ten per cent, than lose millions every month and every year through enforced idleness and unproductive consumption.

The United States can get all the gold it wants when it is ready to pay the price, and it can pay the price when it resolves to do so. The real difficulties are not in this direction; and it is because every man feels that this is so, whether he has deliberately thought it or not, that the most elaborate demonstrations in this line of the possibility of resumption, produce so trivial an effect. "How is it all going to affect me?"—that is the anxious inquiry. The question is not, Can the United States government resume? but, Can the business of the country withstand the shock of a return to the specie basis? A matter of paying four per cent, five per cent, or six per cent interest on $370,000,000 is a comparatively small affair; but a change of the trade measure of value from ninety cents to a hundred cents—a general forced fall of prices of from ten to fifteen per cent—this is something of very serious moment. No wonder that manufacturers pause, that merchants hesitate, that men of every calling fear to go on, when they see this threat of disaster rise before them in cloudy outline, and the financiers, the interpreters of the giant movements of trade, the Wall street sages and the Washington statesmen affect not to know it is there, or only acknowledge its presence with a shrug. Specie resumption means a new dis-

turbance of prices, when already the tossings and shakings of the ratios of exchange have broken thousands of fortunes, and crippled thousands more with crushing losses which never have found place on the public records. Here, then, is the real matter for examination, and no sober and prudent man can be satisfied by a mere allusion to it, or a general wave of the thumb over the shoulder.

Resumption means a return to the specie basis. And a return to the specie basis is not achieved when the government has massed a treasure of gold, but when gold dollars are circulating as money in the trade channels. The question is, How are these gold dollars to be substituted for these paper promises of dollars as measurers of value? What will be the result of adjusting prices to the new scale? Is there any way of mitigating the loss and injustice which a change of the value-measure seems to make inevitable?

The overshadowing consideration is that of the change of values, *i.e.*, the fall of prices. Let us make sure that we hold distinctly in mind what "value" is and what "price" is, for clear ideas on these things furnish the key to the most difficult parts of the problem; and not only that, but could such ideas be disseminated broadly among the people and not

be suffered to remain the possession of a few, they would aid incalculably in preserving order and equity and justice in the inevitable period of trade revolution. A commodity in trade has no "value" except as it is exchangeable for some other commodity and the degree of its value is determined by its ratio of exchange with that other commodity. A hat is valued at fifty loaves of bread when it can be exchanged for fifty loaves of bread. Value is expressed as a ratio of exchange. And "price" is simply this ratio of exchange expressed in money. Evidently, therefore, the "prices" of commodities might be changed infinitely without affecting their "values" with reference one to another in the least. Thus, if the "price" of a hat is five dollars, and of a loaf of bread ten cents, then the value of the hat with reference to bread is fifty loaves. Suppose a general rise of "prices"—let the hat be worth twenty-five dollars and a loaf of bread fifty cents. The value of the hat with reference to the bread is just fifty loaves as before. This is all as simple as A, B, C, of course, but very few consider what it means. It illustrates a fundamental factor in our problem. We are asking what will be the effect of a general reduction of "prices," and the vague reply of thousands, "Loss and ruin," is in no sense satisfying. But we need

not stop with such cloudy answers. A change of "prices" means a change in the value of money, but apart from that, if the "prices" of every valuable possession could be reduced instantly, simultaneously, and in like proportion, there would be no real change at all. Everybody would get exactly the same value—the same amount of bread, meat, clothing and shelter—for his goods and his labor as before. The values of all these things, with reference each to each, would only be differently expressed. But here would be the mischief of such a change: that multitudes would be caught with contracts on their hands to pay specific sums of money. Thus a merchant might have goods in his store valued at $55,000 and might owe $50,000. A raising of the standard of value would cut down the prices of his goods but would not reduce the figures of his liabilities: a change of ten per cent would wipe out his $5,000 capital and leave him $500 in debt.

We are thus getting at something tangible. Let us take a step further. The conditions here supposed would not be found in fact. The measure of value might legally be changed on the instant, but it would take a long time for the change to be introduced in practice. The fall of prices would neither be simultaneous nor proportional. Bread might re-

main at ten cents, and hats go to $4.50--or perhaps lower to bring out the average of reduction. Different commodities would respond to the pressure at different times, the ratios of exchange would be fictitiously altered, and some people would lose and others gain. Money contracts would remain fixed nominally as before; notes would have to be met according to the figures, mortgages paid by the letter of the bond; but all other values would be subjected to uneven and therefore false disturbances. In a word, just that kind of harm and injustice would be worked as was worked by the inflation of the paper circulation and the consequent lowering of the standard of value. There would be no real difference in the nature of the losses; but, broadly speaking, they would be put on those who sell, not on those who buy, and on those who owe money, not on those to whom money is due. The process of wrong and loss would be reversed. Could the same merchant who gained by the rise of prices when we ballooned away from gold be made to bear the loss from the fall of prices when we return to gold; could the widow who was then cheated of half her substance in the savings' bank now have the gain on a similar money contract, there would be a sort of compensation in the new adjustment. But we know that this

cannot be the case. The relations of debtor and creditor are changing constantly, and some have more fortune or more foresight or more power than others in preparing to meet an alteration of the value-measure. The merchant is not willing, and the widow is not able, to take up a position where the change will produce a poetic equity. The injustice resulting from the raising of the standard must be out of all proportion to the reparation for past wrong.

And now we have something as definite and clear in this direction as need be. Our own experience of the evils of false fluctuations in values will make all more sharply plain than any words. Yet we must not permit imagination to run away with reasoning power on this subject. The means employed in bringing about the change will have very much to do with the practical character and extent of the effects. We want to ask, therefore, of the method by which the gold dollar is to be re-instated as the trade measure of value. And thus we come to the application of those great laws of trade in relation to money which it has been the purpose of the previous chapters to develop.

We know in the first place that gold can only come into circulation again under some ordering of

the conditions according to Gresham's Law (Chap. VIII). So long as a depreciated currency stops the way the superior money cannot enter.

At the risk of tediousness we pause to note that the wonderfully common idea of resumption without contraction is a pure absurdity. Should the government to-morrow cut off its receipts of greenbacks, and begin to pay out gold, every dollar of the metal would be exported. So also, if the government should begin to-morrow to redeem its notes in gold, the gold would flow steadily abroad until the whole volume of the currency became just enough for the business of the country conducted on specie prices. Gold will not circulate as long as a currency worth less than gold holds the channels. And there are but two ways of overcoming the difficulty: to contract by throwing the paper out altogether—that is, to repudiate; or, to contract by redeeming. This latter contraction may be brought about violently or by moderate steps, but to talk of avoiding it is only to make confession of dense ignorance.

The volume of the paper currency must be reduced. But the simple removal of a portion of the notes, without the application of any further governmental force whatever, will be followed by an inflow of gold into the courses of trade. This being so, we

find place for the reflection that business interests will be better conserved by permitting gold to enter on trade demand, than by throwing it on the market violently or arbitrarily. The practical application of which is, that the gold should be bought directly with the goods of merchants (by which method trade values will be brought naturally in contact with the measure of value) rather than purchased by the sale of government securities. When we lost our gold the order of events was, inflation of the currency, rise of home prices, selling of our specie for foreign goods; if we are to get back our gold, the order most natural and therefore least harmful will be, contraction of the currency, fall of home prices, buying of our specie with domestic goods. We understand clearly that it is our goods at last which must pay for the gold; it is better that they should be given for it directly than through the roundabout road of taxation and government purchase. And moreover, we know that if the removal of the greenbacks be conducted gradually, the greenbacks will rise gradually to par; and a gradual alteration of the measure of value, a gradual fall of prices, which is clearly foreseen, gives the trader an opportunity, by turning his goods over and over, to lessen his losses on his outstanding obligations. Thus we begin to see that there may

be some ways of at least mitigating the evils of a change of the value-measure.

But further. Three ways for the honest removal of the legal tender are open to us:—(1) They may be called in by a special tax, (2) they may be taken up in coin, (3) they may be exchanged for interest-bearing bonds.

1. However admirable the first method may be in theory, and however well it might have worked immediately after the war (when, in the single year of 1866, the people submitted to a taxation of $250,000,000 more than in 1876), it is open now to the practical objection that the heavy burden might be felt as intolerable. Only two years are given in which to levy the tax. The simplicity of the plan might not be enough to assure popular support, or compensate for the lack of such support. Moreover, the "heroic" treatment is not necessarily the best. The present generation have borne, and are bearing, a large share of the cost of the war. If they can transfer a part to the generations to come, it may be not only fair, but for the advantage of all.

2. There are serious objections to the second method, except as it may be followed after the paper has reached par. The usual proposition is, to accumulate $100,000,000 in gold coin, or whatever may

be necessary to make legal tenders convertible on demand, and then on January 1, 1879, throw open the doors and let every man who can present a greenback do it. But it being known that on that date greenbacks would suddenly leap to par unless they rose before, they would begin to rise previously. But this rise would not be a natural one. The National Banks, indeed, would begin to withdraw their notes or exact higher value for them, and this would be a healthy movement. But the greenbacks would be contracted by the efforts of more or less shrewd or foolish people who would accumulate them to reap the advance. That would happen which always happens in such a case:—the appreciating currency would be "hoarded," and the hoarding of a part would make the rest rise toward par. In other words, the volume of the currency would be reduced, not by the legitimate influences of trade nor by the regular and published acts of the government, but by speculation in its least calculable form. But this would mean fluctuations not to be foreseen, nor provided for, nor mitigated. Their frequency and violence would depend on states of mind, and the responsive changes of prices might be incalculably uneven and unjust. How speedily trade would be forced to the specie basis no one can tell. It is

only certain that the great revolution would be consummated a considerable time before the day set for resumption. The removal at the appointed hour of that quantity of the legal tenders which represents inflation would be sufficiently easy, because they would be sent in in bales; but the real pangs of resumption would have been endured long before. In brief, the plan would accomplish the main purpose, but, so far from easing off the process, it would precipitate the hardships of contraction and substitute a violent and spasmodic constriction for a steady and regular pressure.

3. The method of funding into interest-bearing bonds would seem to be the most wise and most natural way of attaining the object. The government, by the issue of the greenbacks, forced a loan from the people at a time when it could not wait to sell its ordinary bonds. It now repairs, as far as it can, the injury and injustice of the measure, by offering, in exchange for the indefinite and non-interest-bearing paper, bonds which yield a reasonable interest and which name a day for the final return of the loan. As to its equity, the plan seems to be all that can be demanded. The objection that the greenback should be redeemed in gold is met by the consideration that the greenback is really a bond,

pledging the government to pay a debt when it can. By exchanging the greenback-bond for an interest-bearing bond, the government does not pay the debt, but only names that day for payment which seems best for the sake of all, and meanwhile agrees to give proper interest. When it finally pays, it will pay in gold according to the original terms. Observe that there is no compulsion in the exchange of the greenbacks for the bonds. Resumption is not "forced" in this sense. Those who prefer to receive gold directly have but to wait until the day appointed for resumption, which day, certainly, will not be further postponed by the funding operation.

The necessary reduction of the volume of paper can easily be effected by offering for the greenbacks bonds bearing a sufficient interest; and the simple removal of a sufficient quantity of the notes will raise the standard of value, bring prices to the specie level, and induce an inflow of gold. Yet before we unqualifiedly accept the plan, let us be sure that we know how it is intended to operate. We are not simply seeking *any* method by which it may be possible to reach the specie basis; we are seeking the *best* method. The funding plan is very little understood in its details. And the reason for misapprehension seems chiefly to be the common, misleading,

superficial talk about the "*money* market," and the abundance or scarcity of "money." Just now, "money is a drug," it is said; and the idea is conveyed that capitalists find themselves obliged to stuff their pillows with circulating notes, while the banks, perhaps, stack up paper like hay in their strong-rooms. Hence, there are numerous bond schemes proposed which are to take up just the superfluity of paper—as one journal had it, to "absorb the spots and splashes of money." But it is not "money" which is plenty or scarce; the superfluity of paper is continually absorbed by prices. When prices go down under some tremendous shock, paper for a brief time may be superfluous; but it must either be withdrawn or be speedily taken up again by a rise in prices. Just now, it is being withdrawn; the National Banks are surrendering their notes. We repeat, it is not "money" (neither circulating notes, nor true money) which is plenty or scarce; nor is it "money," except in temporary crises, which rules the rate of interest. It is capital offered for loan. Money is neither borrowed nor lent except in insignificant amounts; purchasing power is borrowed and lent, its amount being expressed in terms of money. So then, a plan involving the offer of an unlimited amount of bonds in the faith that a certain low rate

of interest would absorb only the "spots and splashes" of paper, might work out in a way more surprising than felicitous. The quantity at once returned would simply be limited on the one side by the quantity of capital seeking safe investment and content to take the interest offered, and on the other by the quickness with which the greenback would rise in value under the extraordinary demand. The effective check would practically be the latter. The funding would cease, not from the drying up of the "spots and splashes" but from the increased worth of the legal tender. The very purpose of the planners would be defeated. Instead of a gradual retirement of the notes, and a steady upward movement of the standard of value, there would result a violent contraction and a sudden leap toward par.

The true funding plan is clearly to sell the bonds in regular and legally appointed installments. The sales should be regular, that the reduction of the paper circulation and the rise of the standard of value may be steady. The installments should be appointed by law for several reasons: The rate of paper retirement should be settled beyond doubt, not left dependent upon any man's will; and it should be certified clearly to the whole people, in order that they may know just what to expect, as to the change

of the standard of value and of the scale of prices, and may order their business accordingly. Again, the secretary of the treasury, be he never so wise, firm or prudent, should not be exposed to the pressure which will certainly seek an object somewhere when the contraction begins to be felt. He should have no discretionary power upon which schemers, or even distressed merchants, can operate. "The only way to resume is to resume," and no plan can be devised which will not hurt. There must be no more steps backward, like that in 1872, when the secretary re-issued $5,000,000 of the $44,000,000 which had been previously withdrawn. And finally, a law, once passed by Congress and backed by an intelligent public opinion, would be a strong defense against Congressional folly, weakness or dishonesty. A concentrated effort could secure such legislation, and a project of repeal would marshal the whole country against the small body which might demand it. We must have no repetition of the mistake of 1868, when, although legitimate business was proceeding within guarded limits and under the expectation of a speedy return to specie, the contraction which was being accomplished by Secretary McCulloch was put an end to at the demand of a few who

found in expanding credit and inflating prices the opportunity of speculative gains.*

Thus, with our knowledge of the laws of money and the guidance of our own bountiful experience, we are enabled to mark out a plan for resumption with as much certainty and definiteness as can be reasonably asked for. The main feature will be the reduction of the volume of the inflated currency by funding, the process being carried on under such provisions as will secure regularity, publicity and certainty in the operation. The rate of funding will be such that the amount of paper which it is necessary to remove (generally estimated at $100,000,000) will be retired before the date fixed for resumption. Before this date, therefore, business will be upon a

* It may be remarked that the proposed repeal of the legal tender act would certainly, as it is urged, accelerate funding at a low rate of interest. But low interest is a minor consideration, and it must not be forgotten that the notes of the National Banks are a part of the inflated currency, and that these notes are now convertible on demand into legal tender. When, therefore, the quality of legal tender is taken from the greenback, the bank-notes will become payable on demand in gold. Hence the repeal of the legal tender act before the government paper had reached par, would compel an instant contraction of bank issues—unless, indeed, the National Bank notes were made legal tender, when complications would arise in other directions. Furthermore, the project has a considerable element of injustice in it. And finally, such a proposition would divert popular attention from the main line, when concentration of thought, feeling and conviction is a supremely important matter.

specie basis, and the inflow of gold will have begun. Supplementary to the main measure will be the accumulation of a certain store of gold,—enough to maintain the convertibility of the greenback upon, and after, the day of resumption, and enough also to secure and establish confidence, during the period of contraction and waiting, among people of every degree of intelligence. Moral effect is an especially important consideration when popular ideas are so confused. The appropriation of the proceeds of some special tax might be useful also, in further securing regularity in contraction, and in contributing to the gold reserve.

The plan will certainly accomplish the purpose. Supposing it to be adopted and the work going on. The legal tenders are being steadily retired, and it is certain that on the day fixed, every note outstanding will be worth its face in gold and convertible into gold on demand. What then? The National Banks will contract also, nor will a factitious pressure for "more money" be likely to tempt them into expanding unduly. Should, however, there be a well sustained demand, it will be responded to, and safely, because it will be the result, not of a flurry, but of a legitimate trade development. All the "money" required for "the wants of trade" will be furnished,

because the banks will find a profit in furnishing it. But the continual tendency will be to a gradual lessening of the volume of the currency in proportion to the amount of business,—a gradual reduction of "inflation," and hence to a gradual rise in the purchasing power of the greenback, and a gradual fall in prices. The contraction will be so timed that the greenback will be at par, and prices at the gold level, before the day appointed for resumption. But when the paper is at par it will no longer be an inferior currency, and will no longer hinder the circulation of gold. And here will enter the law by which prices and gold act and re-act upon each other. The low prices will encourage the export of goods and the import of specie; the "balance of trade" will turn "in favor" of the United States; the United States will buy back again with its merchandise, and through its merchants, the gold which it sold in 1862. Gold dollars will circulate in the ordinary channels of business as measures of value. The trade of the country will have "resumed"—and how soon thereafter the government resumes will be a matter of comparatively slight importance.

CHAPTER XXIX.

RESUMPTION—THE BRIGHTER SIDE.

IN the previous chapter we have endeavored to confront squarely, without self-delusion but without exaggeration, the evils of the process of resumption. We see that a certain amount of loss and harm is inevitable. There is no nostrum which can effect a painless cure. Yet we see that the pictures of ruin which many demagogues draw are for most part the product of diseased or ignorant imaginations. We see also that there is a choice of plans, and that the plan of funding, which on the whole seems most natural, most closely in accord with the loan character of the legal tender issue, will very greatly reduce the hardships and perils of the resumption process. But we may go further still. Every serious change in the measure of value causes loss and injustice, but a change from a certain point of depreciation to the standard cannot be nearly as fruitful of wrong as was the change from the standard to the unknown depths of depreciation. The

deliberate movement from a legal tender worth ninety cents to a gold dollar worth a hundred cents may be compared to the laborious ascent of a ladder to a fixed point; the movement the other way was a leap from a height in the dark. A return to the specie standard, on the funding plan as here lined out, will be marked with these mitigations, besides many others of greater or less importance.

1. The losses will not be disguised. The fiction that "a dollar is a dollar" will find few believers on a descending movement of prices. Everybody who loses will know it and feel it at once; a good many will think they are losing even if they are not; and the effect will naturally be to repress extravagance and cultivate thrift. If we want to appreciate the significance of this we may look to France, where the frugal habits of the people have developed a recuperative power which is the amazement of the world.

2. There will necessarily be a more general knowledge of what is taking place than there was in the case of inflation. And there will be, moreover, a general assent to the truth. Hence, the men who, in the period of inflation, were easily victimized, will be in position to defend themselves in a considerable measure. The merchants and manufacturers will probably get the best of it, from their superior

knowledge and their large control of the price lever; but the farmer and the salaried man, the skilled mechanic and the raw laborer, will have far more power of resistance and chance of protection than under depreciation.

3. The whole extent and the rate of the change of basis will be positively fixed and known beforehand. This will tend to prevent those great fluctuations which are caused by fear and uncertainty. Close calculations can be made on future conditions, the per centage of price variation for risk will be narrow.

4. The time in which the change will take place will be definitely limited. Full notice will give opportunity of reducing debt, contracting obligations, broadening the margin of real capital. This is obviously a matter of the first importance, and, in connection with other considerations, constitutes an imperative demand for the fixing of a date for resumption. Resumption can be accomplished without fixing a date, but business would suffer more than it needs to in the process. Fair warning is a simple matter of justice.

5. The present state of business and industry will favor the process of changing the standard of value. This being a point of much dispute, let us

consider it carefully. Some suggest that we should not force resumption *now;* we should wait until we have recovered from the depression of recent disasters. The notion is plausible,—at least it deludes many; but it has not so much reason in it as a protest against setting a fractured arm before the bone has had a chance to knit. Although the vast destruction of the war, and the general consumption of capital through the civilized world during recent years, is a great factor in the present low state of industry and trade, the utter prostration of business in the United States is the direct result of paper money, and the abuses, waste, imprudence, speculation, extravagance and corruption induced by it. Some sort of recovery is possible without an eradication of the evil, but sound health is not possible. And should the expected revival of business take place before anything has been done to throw out false value-measure and re-adopt the true, continued weakness and frequent relapses are the certain penalties. But further. There are two sources of loss in a change of the value-measure: debts and the difference between the old and the new scale of prices. The alteration in the price scale, we have seen, can be discounted and provided for in large measure, especially when the scale is descending.

But a debt must be paid according to the figures in which it is expressed. The time for a change, therefore, is that time, above all others, when debts are few. Such a time there was at the close of the war; and even with the partial inflation that then vitiated trade, had a steady contraction been at once begun and steadily persisted in, the paper, upon its release from war employment, would not have been left out for absorption in advancing prices; the delusion of growing wealth would not have seized the people; the era of wild speculation would not have opened, and the demolition of capital and the distresses which are popularly referred to the dreadful accounting day of 1873 might have been escaped and warded off entirely. The country would naturally have gone soberly to work—as did France after her ruinous conflict with Prussia—to restore and make good what the war had destroyed. But that time not taken advantage of, another time is the present, —and some of the conditions are even better. Business is reduced to exceedingly narrow limits, credit is curtailed, and prices are nearly down to the specie level. The very disasters whose effects yet bear upon us have made our opportunity. The crash of '73 was a collapse of inflated credit. The thousands of failures since then were so many extinguishments

of debt. If indeed times are to be chosen for the eradication of an evil which constantly injures and destroys, we could not choose a better time than this very year. The miller repairs his dam when the stream runs low and grist is scarce. Just so, we should rebuild the value-measure to its true level when trade is slack and the tide of prices at the low-water mark.

6. Resumption measures will exert a favorable influence on business by affording solid ground for present trade and making the future reasonably certain. It would be tedious to enlarge here on the encouragement which would be afforded by a measure of value certain not to be lowered and only varying by steady and easily followed advances. But we may take notice of another and very considerable matter, which is frequently overlooked; and that is, that the advancing value of "money" itself would impel capitalists to make loans at a rate of interest not only lowered because idle capital is plentiful, but lowered, also, because the rise in the value of the "dollar" would be discounted. Let it be established beyond shadow of doubting, that the "dollar" of to-day will mean a hundred cents in gold in 1879, and capital will be abundantly supplied at low rates for all legitimate enterprises. And capital will be

borrowed for no other than legitimate enterprises, for times of contraction are not times of balloon speculation.

7. Finally, the indications of the present are that the long expected upward movement of general trade is at hand. The people have awakened from the dream of amassing riches by simply tossing commodities from the right to the left, and have settled down to the sober labor of production. The tillers of the soil are reaping full crops, and out of the fruit of the soil, in this agricultural country, the elements of recovery from a general prostration always spring. If the supreme condition for flourishing business be supplied,—the condition, namely, that every man be paid by just measure—it is reasonable to hope for such rapid and steady growth of business that the hardships of resumption will be greatly reduced by the increased ability to withstand them. Low prices are easy to bear in connection with quick sales and rapid profits.

Incomplete as this enumeration is, it may suffice for the purpose. The return to the specie basis will entail loss to many, but the aggregate loss will not be comparable to that caused by inflation, and not worth weighing an instant against the constant loss and chronic debilitation of a sort of commercial chills and fever.

CHAPTER XXX.

THE PRACTICAL ISSUE.

THE question stands clearly before us. An inconvertible currency is a wrong and a curse through every day of its existence. We cannot stand up under it forever, for it would finally work absolute ruin. Shall we rid ourselves of it now, when even our misfortunes offer us help, or shall we bear the incubus a while longer and be forced to a more bitter and costly struggle at last? There can be but one manly answer to that question.

And what then? Evidently there rests upon us, upon all who have a definite understanding of the situation and a definite conviction of what should be done, an obligation to set the question aright before the whole people, that the whole people may give the manly answer and carry its requirements into effect. In a democracy, the masses control directly the mechanical force; but the great body are intelligent and their will may be instructed, while the

ignorant are at least capable of faith in intelligent direction. If the governmental machine works destruction instead of good, it is largely because the higher intelligence of the country is confined—or rather, has chosen to confine itself—to exclusive and separated centers. Especially is this true where action respecting such a matter as this of the paper currency is concerned. The people surely would wish to do the right thing were that thing clearly before them; and the professional politicians never disobey any universal demand, but rather make their swift compliance the ground for further favor. To put the right man in office is an extremely difficult task, but to compel the men who are put in to take right measures on any large and obvious question of public policy (except it be a question involving their private interests) is clearly within the power of an enlightened minority. Their task will not be finished in a day, but to-day and every day they may make certain progress toward the end.

The recognition of the duty of leadership, and the direction of that leadership to the practical purpose of awakening and forming public opinion are the necessities. It is not enough that a dozen newspapers possess perfect wisdom in finance, and are able to dogmatize to their readers without suspicion

of flaw. The readers themselves should possess that wisdom, that they may perform their duties as citizens in the clear light of conviction and not among the dubious shadows of faith. It is not enough that chambers of commerce are solidly for hard money the retail shops can vote them out of sight. The sound journals, the solid members of the chambers of commerce, the organizations and the men everywhere whose opinions are built on understanding, must really lead: the leadership must be of that genuine quality which first seeks intelligent following, and accepts the adherence of non-intelligence as a responsibility of guardianship.

It will not do, as many seem to imagine, to rely upon the merely traditional faith in hard money principles, which prevails among the masses, to work a release from the present financial evils. Let an issue be squarely presented, and traditional faith might induce blind voting on the right side. But who present political issues? Not necessarily the most intelligent or most honest leaders. An issue appears in a political conflict as the outcome of deliberate working upon the public mind, and among the complexities of opinions, prejudices, feelings and circumstances; and it is the unfortunate lot of the United States that its most

earnest organizers of issues are those who make politics a trade,—men who trouble themselves not at all about true statesmanship or the correctness of public opinion, but find it more to their purpose to espouse whatever policy will carry them into power, and to adapt their schemes to current feelings and ideas rather than to bring those feelings and ideas into harmony with any particular political doctrine. It might be possible, certainly, for a skillful leader to juggle a true issue to the front, just as the trading politician pushes forward a fictitious issue, to further his "party" plans; but the risk of defeat at the hands of trained manipulators would be great. The only wise, as well as the plainly right course, is to work honestly upon public opinion and bring about a presentation of the real political question with a backing of general conviction.

Nor do we thus reckon without the host of the ignorant voters. The "opinions" of the Five Points may not be directly changed by a speech of Charles Francis Adams; but those opinions are the reflex of the opinions of others, through higher and higher grades, until somewhere they touch intelligence. The intelligent "bosses" certainly have a great power in forcing the acceptance of their views in opposition to views not mingled with whisky and

eight-hour dirt-picks. But they do not carry the entire ignorant vote, and, what is of even more account in the money problem, they have really nothing to gain in leading the ignorant the wrong way on a question where private interests are practically not divided, unless they can thus join the ignorant vote to their party's portion of the intelligent vote. The trading politician has no care for the higher questions of state, in themselves ; he has no earthly objection to fighting for the right, if the right makes as well for the party victory as the wrong.

The clear duty, therefore, of every intelligent citizen, from the distinguished leader of masses to the modest man whose word has weight with a neighbor, is to obtain a conviction himself and endeavor to impart that conviction, honestly and rationally, to every man in the circle of his influence. Nor should the great journals consider that the elucidation of elementary truths is a labor beneath their dignity. No truths are more important than elementary truths, and no instruction is more useful than elementary instruction when this is what is needed. The people of the United States of all peoples should be most versed in the science of money, and at the present moment it might almost seem that they are the most ignorant. The A, B, C, needs

to be taught through the length and breadth of the land.

Nor will the work be done, nor the necessity of popular comprehension have passed away, when definite measures have been adopted to bring about resumption at the time pledged. Any process of resumption means loss and suffering. The people must be forewarned of that, and be prepared to meet the inevitable. As soon as the measures for resumption begin to take effect, there will be outcries of injustice and demands for relief. And then will be the greatest need of a general intelligent conviction. The lack of it, indeed, may be the cause of failure after the cost of resumption has been almost completely paid. The powers that make and break laws will be subjected to a pressure which only a most palpable and unyielding public opinion may nerve them to withstand. They will be assaulted by the clamor of the paper-money visionaries, by the remonstrances of those whom contraction hampers, by the pleadings of the unhappy few whose sacrifice is as unavoidable as bloodshed in war, and by the subtle argument of schemers who fatten on the financial follies of the government. Nothing will be a reliance then, but a clear, solid conviction, firmly held by the voting mass, and insisted upon without

shadow of compromise. The process of resumption must be carried out in broad daylight, with the deliberate consent and the deliberate will of the whole people, that no Congressman, and no public officer, either from weakness or stupidity or venality, will dare to trifle or to falter, but that every man, to whom any portion of the responsibility is committed, will be compelled to push the work to its conclusion on the peril of his public life.

SUPPLEMENTARY CHAPTER.

(*Prepared for the second edition.*)

SINCE the publication of the first edition of this book, the conditions of the currency problem have been materially changed. There has been no change, however, in principles. The developments of the past four years have been in strict accord with those laws of money which the master economists have enunciated, and which these pages have striven to elucidate. The developments to come will proceed under the same rule, and it is as much a part of the citizen's duty to-day as ever to have an intelligent conviction as to the policies which ought or ought not to receive his support.

It is true the advocates of the "do nothing" policy are as complacent now as they were in 1876. There are always those who urge letting things take care of themselves, and who, when things are never-

theless cared for, claim great credit for their sagacious inactivity. "Things will come out right, if you will only let them alone." This class of philosophers, in reference to the money problem, make two mistakes: first, things have not come out right; and, second, things have not been let alone.

A certain kind of resumption has been achieved, —unsatisfactory and unsafe; but even this, not by allowing matters to drift, neither by disregarding the teachings of the world's experience. We have had a strong man at the head of the Treasury, and he has been clothed with enormous powers, which he has used with most positive force, and with remarkable judgment. He did not wait for the mysterious "Balance of Trade" to flood the country with gold; he accumulated it steadily from the revenues, and when it did not pile up fast enough, he went into the market and bought it. In 1877 he sold fifteen millions of four-and-a-halfs, and twenty-five millions of fours, for gold. In 1878 he disposed of fifty millions of four-and-a-halfs. By the first of January, 1879, he had accumulated a resumption fund of $135,382,639, gold, and $32,476,095, silver. His efforts were greatly aided by the banks, especially of New York and Boston. The Government was, in the person of the Assistant Treasurer, made a member of the Clearing

House in New York, to the great economy of gold in the operations of the Treasury. The banks also abolished special gold deposits. The National Banks restricted and reduced their note circulation. In many effective ways the banks and bankers of the country aided in raising the greenback to par, and in protecting the Treasury from gold demands.

The plan the Secretary of the Treasury pursued was not that advocated by the "theorists." But those who conclude that he set at naught the notions of the economists, do so without warrant. The chief of these notions, in this regard, was, that the greenback could not be brought to par without contraction. Very well; we have had contraction. This statement seems to some surprising. Even the Director of the Mint assumes that there has been no contraction worth mentioning. What are the facts?

In January, 1875, when the Resumption Act was passed, the amount of legal tenders outstanding was $382,000,000. On the 1st of January, 1879, the amount was $346,681,016. Here is a contraction of $35,319,984.

On the 1st of January, 1875, the amount of the National Bank circulation was $354,128,250. On the 1st of January, 1879, the amount was $323,791,674. Here is a contraction of $30,336,576.

The total positive contraction of paper in the four years was $65,656,560.

But what may be called a negative contraction is to be reckoned for the same period. Business was increasing, the uses for money were multiplying; but the supply of paper money was not enlarging in proportion; on the contrary, it was actually diminishing. If we take the statistics of our foreign commerce as an index of our general business (certainly, under our tariff system, a much reduced measure) we get this result: The combined imports and exports of 1875 sum to $1,046,000,000; those of 1879 to $1,156,000,000,—an increase of more than ten per cent. If, therefore, the needs of trade were met in 1875 by $736,000,000 in greenbacks and bank notes, in 1879 there would probably be a demand for ten per cent. more, or $809,000,000. The paper being at this date only $670,000,000, we discover a virtual contraction of about $140,000,000.

This mode of figuring is only employed to illustrate. It is not really necessary to make such rude estimates. As was shown in Chapters VI and XIII, provided there be no interferences, the "wants of trade" find their own means of satisfaction. In November, 1879, as a matter of fact, trade "needed" and obtained a circulating medium as follows:

Treasury notes outstanding	$346,681,016
National Bank notes outstanding	337,181,418
Gold in Treasury (less certificates held by banks)	157,960,193
Silver in Treasury	50,078,620
Coin in banks	42,173,731
Coin held by the people (estimate of Director of Mint)	231,478,515
Total	$1,165,553,493

Allowing for the absence of Government reserves under the suspension regime, and subtracting, therefore, the gold and silver in the Treasury, we have an active circulation of $957,514,680, of which only $670,000,000 is paper. The virtual contraction since 1875 may be properly put at $287,000,000, or thirty per cent. In a volume of $957,000,000, paper to the amount of $670,000,000 may easily stand at par (Chap. XVI).

The case for the "theorists" does not end here. We have a sort of resumption, it is true, but it is liable to continual attacks, and how long it will last he would be a rash man who should predict. If Secretary Sherman's achievements have shown anything, they have shown that the greenbacks could have been retired and cancelled with comparative ease. This

was what the "theorists" demanded, and had this been done there would have been no difficulties to-day as to the paper circulation. As it is, we have a paper circulation of $670,000,000 depending practically for convertibility on the Secretary of the National Treasury. And this, too, notwithstanding the fact that the National Bank circulation is outside of his control. The chief dangers in this state of affairs are those indicated in Chapter XIV. It is unsafe in the extreme to put such a responsibility upon an officer of the Government, hedged about as he is by necessary and unnecessary restrictions, subjected at all times to the pressure of public opinion, and at all times liable to Congressional interference, or to abrupt dismissal with the demolition of all his plans.

It is fair to the reader to say at this point that I do not dwell on the dangers which seem to be placed most prominently in the current discussions, for the reason that I do not agree in regarding these as all important. The failure of the crops abroad, and the consequent heavy export of our abundance, unquestionably aided in our resumption measures, but only because we, by positive action, took advantage of the circumstances. The era of low prices, caused at once by the richness of our harvests and the disasters among our manufacturing industries, gave us excep-

tional opportunities for the accumulation of specie, and we made use of them (Chapter VII). But should these conditions be reversed—should the crops fail here and the abundance appear abroad, should returning prosperity bring a return of high prices—we shall not lose our gold if the banks and the National Treasury elect to keep it (Chap. VII).

There is, however, a question here in connection with the specie reserve of the country as a whole which I have not seen discussed. The National Banks are not obliged to redeem in gold so long as greenbacks are at hand. It is within the possibilities that, using the greenbacks as their reserve, they might expand so heavily on a rising market as to strain the general specie reserve to the snapping point. Nor is it a sufficient answer to say that the greenbacks being convertible, the bank notes become convertible also. If the banks depend for specie on the Treasury, the Treasury reserve becomes only a reserve of a reserve.

But, after all, the great danger in the situation is the presence of a Government official as the ruler of our monetary destinies. Abolish that danger, and all others in connection with the paper circulation are abolished with it. This can only be done by the complete cancellation of the greenback.

A few words now as to the silver experiment.

Here, also, we find the sages of "American systems" of finance enjoying their peculiar sensations of triumph. For two years they have been heaping scorn on the "doctrinaires" who predicted evil to come as the consequence of the proposed re-establishment of the "Dollar of our Fathers." The mistake they make here is best revealed by noting a fact which has apparently escaped their observation. Namely, this: The silver law against which the "doctrinaires" contended was not passed. A simple reply, but none the less true. The silver bill from which were expected such destructive results as are described in Chapter XXVII, did, indeed, get through the House, Nov. 5, 1877, by the disgraceful vote of 163 to 34; but it was killed in the Senate.

What was that bill? It was a bill for the *free coinage* of silver, 412½ grains to the dollar. Any man owning silver was to be privileged to take it to the mint and have it manufactured into legal dollars, each dollar coin containing only eighty cents' worth of metal. The whole product of the bonanza mines was to be turned on to the country for twenty-five per cent. more than it was worth. Germany was to be allowed to unload through the same channel. And lest

the people should rebel and check the game by marking up the prices of their commodities, the proposition was audaciously made to compel the issue of money certificates for silver bullion deposited: the process of coining was too slow; the silver men wanted to leap into the market with their spurious dollars before any rise of prices could occur. This was the bill which excited the indignation of the economists. But this was the bill which did not go through.

The bill which did go through (Feb. 28, 1878) was quite another matter. Pernicious as it is, the actual silver law bears no comparison in viciousness with the proposals of the Silver Ring. The free coinage element was left out, and the amount to be coined was given to the discretion of the Secretary of the Treasury,—with the restriction, however, that he must coin at least two millions a month. The conditions were thus completely changed. The twenty-five per cent. profit on the manufacture of silver dollars went to the Government. Private greed was not stimulated, neither permitted to inflate the currency for its own satisfaction. Silver bullion was purchased at its market value, and coined only on the order of the Secretary of the Treasury. Furthermore, Mr. Sherman did not display that keen

affection for the "Dollar of the Fathers" which such papers as the Chicago *Tribune* professed, and coined no more than he was positively required to coin. If the reader will study the principles outlined in Chapter XXII, he will perceive that the effect of these several restrictions was to make the silver dollar virtually a subsidiary coin. It became simply a "token" for a dollar; able to stand at par so long as its convertibility was maintained by restrictions upon its issue.

The consequences which were predicted as certain to follow an entirely different law did not of course follow this. The "doctrinaires" see no reason as yet to consider themselves annihilated.

But the law as it stands is a bad one. It does not permit the flooding of the country with depreciated coin by private individuals under the stimulus of enormous profits, but it does provide for, and indeed compel, the gradual introduction of such depreciated coin by the Government itself.

The coinage must go on at the rate of two millions a month. The people do not want this "Dollar of the Fathers." It is too weighty for use; it is not weighty enough for export. Its true value is but eighty-seven cents; its "token" value is no greater than that of two "halves," and the halves are the

more convenient. All the powers of the Treasury have been invoked to get the Dollar into the hands of the people; but, though disbursed at most distant points, it flies back straightway to the Custom House, and thence to the overflowing vaults of the Treasury. The coinage goes on at two millions a month. What will be the end of this extraordinary policy? The coin passes now by the discretion of the Secretary into the reserve fund of the Treasury. When the capacity of that fund is exhausted, silver must be paid out indiscriminately for all liabilities of the Government. The ultimate result will be the crowding out of gold, and the lowering of the greenbacks and National Bank notes to the silver basis,—with all the consequences to business and credit which follow a reduction of the standard of value from 100 to 87.

What those consequences may be under the present conditions, no one can foretell. We know they will be destructive to the national credit, and to business interests. We are certain they will carry loss to the wage-earning class. We are sure they will effect a confiscation of capital. That they might snap the bonds holding us even to silver resumption, and launch us again on the sea of paper money, is by no means impossible.

But there is no need to waste ingenuity in surmises. We know that we are throwing dice with fortune so long as we keep the currency in its present disorganized state. The thing to do is to set it right.

Put an end to this silver folly. Redeem the greenbacks.

NEW YORK, *August*, 1880.

The following Economic Tracts have been issued during the year (series 1880–81):

1. "WHAT IS A BANK? WHAT SERVICES DOES IT PERFORM?" by Edward Atkinson, of Boston. Price 10 cents.

2. "POLITICAL ECONOMY AND POLITICAL SCIENCE": a priced and classified list of books on political economy, taxation, currency, land tenure, free trade and protection, the Constitution of the United States, civil service, co-operation, etc., compiled by Prof. W. G. Sumner, of Yale College, David A. Wells, W. E. Foster, R. L. Dugdale, and G. H. Putnam. Price, 25 cents.

3. "PRESENT POLITICAL AND ECONOMIC ISSUES": a collection of questions for debate, and subjects for essays on current topics in American politics; with an appendix of questions proposed for discussion before the Political Economy Club of London, by J. Stuart Mill, George Grote, and others; and questions debated by the Société d'Economie Politique of Paris. Price 10 cents.

4. "THE USURY QUESTION": comprising an abridgment of the famous essays of Jeremy Bentham and the letters of John Calvin; the speech of the Hon. Richard H. Dana, Jr., before the Massachusetts Legislature; a summary of the results of the present usury laws of the United States, by the Hon. David A. Wells; and a short bibliography on the subject of interest. Price, 25 cents.

There have been six thousand of these Economic Tracts distributed, every member receiving a set of the series for his membership fee. (These tracts may still be obtained of the Secretary at the prices named, or by forwarding 50 cents for the series.)

A series of tracts will be published and distributed to members during 1882 as in 1880–81, the subjects of which will be announced from time to time.

The Executive Committee has selected the following books for the course of reading for 1882, which will constitute the second series of the

LIBRARY OF POLITICAL EDUCATION:

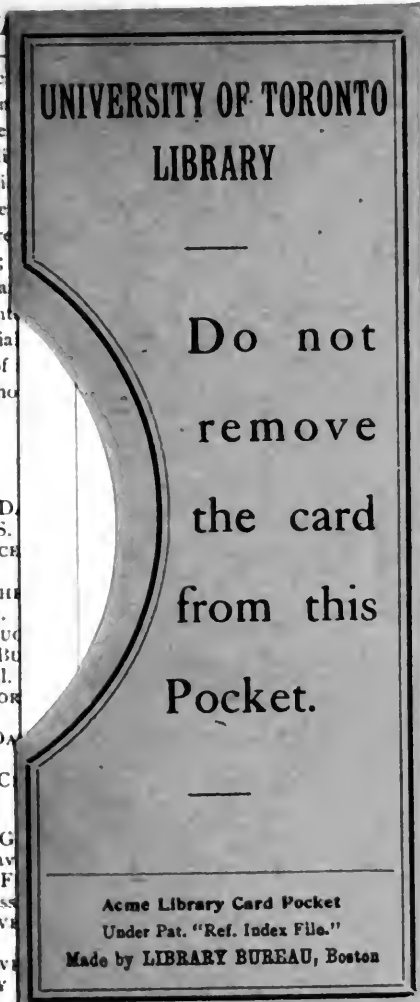
A HISTORY OF POLITICAL ECONOMY IN EUROPE, by Jérôme-Adolphe Blanqui; translated by Miss Emily J. Leonard. 628 pp., $3.50.

MONEY AND THE MECHANISM OF EXCHANGE, by J. Stanley Jevons. 402 pp., $1.75.

ON LIBERTY. By John Stuart Mill, 204 pp., $1.50.

Members who join for the year 1882 may read either the first or the second series of the *Library*, but the Committee recommends them to begin with the first series, unless they have already read the books comprised in it.

In order to enable persons in places where no public library is accessible, to procure, at a reduced rate, the volumes recommended by the Executive Committee for the annual courses of reading, the Committee has arranged for special editions of these in uniform binding, with the imprint of the Society upon the cover, which will be issued in annual series under the general title of the *Library of Political Education*, and can be supplied only in sets.



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